

3 1761 116513854

RB12468



Presented to the
LIBRARY of the
UNIVERSITY OF TORONTO
by

Royal Commission
on Taxation

HANDBOUND
AT THE



UNIVERSITY OF
TORONTO PRESS

CA
Z 1

Government
Publications

-62722 *Page*

Canada. Royal commission on taxation.

Briefs. v. 7A-11A, 1963.

1966



Digitized by the Internet Archive
in 2023 with funding from
University of Toronto

<https://archive.org/details/31761116513854>

1946
ROYAL COMMISSION

ON
TAXATION

HEARINGS

HELD AT
MONTRÉAL

P. Q.

BRIEFS

VOLUME No.:

7A

DATE:

April 24, 1963

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
BOARD OF TRADE BLDG.
11 ADELAIDE ST. W.
TORONTO

364-5865 364-7383



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1
2 A SUBMISSION
3
4

5 to the
6

7 ROYAL COMMISSION ON TAXATION
8

9 covering
10

11 THE CASE FOR ELIMINATION THE
12

13 CORPORATION INCOME TAX
14

15 by F. S. CAPON
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



1 The Case for Eliminating the Corporation Income Tax

2 Summary

3

4 1. The technological and economic changes now
5 underway are of infinitely greater scope and significance
6 than was the industrial revolution of the nineteenth
7 century. As in that earlier period of drastic and sudden
8 change we shall soon find ourselves faced with economic,
9 political and social conditions entirely different from
10 those of the long period ending with World War II. If
11 we are to succeed as a nation, it is therefore of the
12 greatest importance that we reconsider our present
13 position in relation to the past which brought us to where
14 we are and to the future which can be expected to result
15 from present trends, actions and decisions. Because our
16 tax and other fiscal policies were designed to meet
17 totally different conditions, such reconsideration may
18 serve to highlight radical changes in taxation policy
19 which appear necessary if we are to ensure high living
20 standards for future generations of Canadians.

21 2. Our past was that of any undeveloped country.
22 The early settlers produced what food they could for
23 themselves, at the same time developing our natural
24 resources in order to earn sufficient incomes with which
25 to support their families. Starting with beaver fur
26 and lumber, followed by cereal grains and cattle as the
27 prairies were opened up, Canada's has always been
28 essentially an economy based on staples. Newsprint,
29 cellulose and metals came along in due course, to be
30 followed by the newer staples of oil, gas and uranium.



1 But still, as a staples economy, our exports are largely
2 raw materials and our imports are manufactured products.
3. Historically, living standards in a staples
4 economy have been lower than in industrialized economies.
5 Agriculture and natural resources development provided
6 jobs, but at lower wage rates than for those employed in
7 manufacturing. Today, mechanization is limiting the
8 employment in these fields, and with a greater share of
9 their earnings applying to the huge new capital invest-
10 m ent, foreign owners may benefit more than Canadians
11 from the success of resource industries. While Canadians
12 have lived well during a decade of phenomenal growth
13 financed by foreign capital, such conditions cannot be
14 expected to continue indefinitely. To maintain prosperity,
15 Canada must rely to a greater extent than in the past
16 on secondary manufacture.

17. 4. Technological advances in recent years - such
18 as the computer, nuclear energy, miniaturization and
19 automation - are bringing about entirely new concepts
20 of labour, leisure and prosperity. They are permitting
21 sharply increased productivity, and thus higher gross
22 national income, with lower employment. Thus, for the
23 first time in our history, full employment may not be a
24 realistic objective. It is important to recognize that
25 national income is increasing, and can continue to
26 increase, through the investment of capital without
27 corresponding additions to the necessary labour force.
28 Thus, growing prosperity for the future may go hand-in-hand
29 with rapidly increasing leisure (or unemployment), always
30 assuming that we can assure for our people sufficient



1 incomes to enjoy the fruits of our productivity.

2 5. In such a situation, it will become progressively
3 more important for the base of capital ownership to be
4 broadened. As a growing proportion of national income
5 will result from the employment of capital rather than
6 labour, more will be distributed to capital owners as a
7 group than to workers as a group. This can be achieved
8 by two alternative approaches - either to make our
9 households capitalists, or to place a heavy and increasing
10 tax on income from capital to siphon off these earnings
11 for transfer to the unemployed. The former holds promises
12 of making Canada prosperous and self-sufficient; the
13 latter holds out only the promise of ultimate socialist
14 mediocrity as more and more voters depend upon the state
15 until there is a majority in favour of outright expropria-
16 tion of wealth.

17 6. The prosperity of a nation depends upon two
18 main factors - a high national income, and a broad
19 distribution of this income amongst its households.
20 Two examples will illustrate this point. In the colonial
21 empires great wealth was generated through development
22 of resources in the colonies, but as much of it went to
23 foreign owners the workers who lived in the colonies had
24 low living standards. In the agrarian nations, land
25 ownership was concentrated in the hands of the ruling
26 landlord class, leaving the tenant farmers and peasants
27 with low living standards, and causing great concentra-
28 tion of wealth. Thus, as Canadian productivity gains
29 through automation, with a steady reduction in work
30 opportunities, Canada can be prosperous only if our



1 capital (or wealth) is owned largely by Canadians and
2 is broadly distributed amongst our households. Only if
3 a large proportion of our households ultimately receive
4 their incomes from ownership of capital can they be sure
5 of economic freedom, and they can have no personal
6 freedom without economic freedom.

7. Because they were designed to meet entirely
8 different conditions, present fiscal policies function
9 in exactly the reverse manner from what is needed to
10 achieve the aim outlined in the preceding paragraph.
11 The confiscatory levels of graduated personal income
12 tax siphon off for social benefit payments that dis-
13cretionary part of many Canadian incomes that would
14 otherwise be mainly employed to buy equity securities.
15 At the same time, the heavy reliance on the corporation
16 income tax results in Canadian industry being non-compe-
17 titive, and fosters the rapid concentration of equity
18 ownership, particularly in the hands of foreigners.
19 Canada's situation cannot be reversed overnight; our
20 problems will take many years to solve completely. But
21 unless we set our course in the right direction we can
22 look forward only to a series of crises, to falling
23 living standards and to unemployment rising much more
24 quickly than will be caused by automation. If we hope
25 to assure satisfactory incomes and living standards for
26 Canadians we must move towards fiscal policies which will
27 improve our industrial competitiveness by avoiding taxes
28 burdening production, which will foster equity capital
29 formation by Canadian individuals, and particularly which
30 will foster a rapid broadening of the base of equity



1 capital ownership to our households.

2 8. Such an objective requires elimination of the
3 corporation income tax and a drastic reduction in the
4 amount of graduation in the personal income tax. Neither
5 of these specific tax proposals need cause a significant
6 reduction in government revenues, provided they are
7 accompanied by:

8 (a) a heavy tax on undistributed corporate
9 income;
10 (b) a tax deducted at the source from dividends
11 payable to institutional or foreign share-
12 holders equal to about the same tax at
13 present paid by the corporations on the
14 profits applicable to shares held by
15 institutions and foreigners;
16 (c) elimination of the 20% tax credit on
17 dividend income at present allowed as a
18 partial offset for the corporation income
19 tax.

20 9. There follows a discussion of some aspects of
21 Canada's economic and fiscal history as they bear
22 particularly on the present tax structure, and of the
23 reasons why a radical change seems so necessary at this
24 time. This presentation is almost entirely philosophical,
25 because up-to-date official statistical information is
26 not readily available to the individual.

27 Discussion

28 10. Consideration of Canada's tax structure
29 necessarily involves a review of our economic history in



1 which lies the bases for the various taxes on which we
2 have relied to produce government revenues and to in-
3 fluence our growth and development in the desired
4 direction. Just as our present economic situation has
5 resulted logically from the employment of our resources
6 and abilities as influenced by the fiscal policies of
7 the past, so our success in the years to come will be
8 largely determined by our resources and the fiscal
9 policies we pursue in the present and the immediate
10 future. Presumably our chief objective is to assure
11 prosperity and high living standards for Canadian as a
12 whole. To achieve this objective we must evaluate our
13 potentialities and then adopt those fiscal policies
14 which, through financial and other incentives, are most
15 likely to result in high productivity and a broad base
16 of wealth distribution. Thus it follows that we must
17 avoid tax policies which will add to Canadian production
18 costs (making our products less competitive) and which
19 will result in the concentration on equity capital
20 ownership.

21 11. So long as Canada is a free enterprise country,
22 most of her productive resources will be entrusted to
23 her private corporations for operation. Thus, the nation's
24 economic welfare depends upon the success of her private
25 corporations, since gross national production will be
26 essentially the sum of the output of all our companies.
27 If we are to prosper, our corporations must prosper -
28 they must be efficient, their operating costs must be as
29 low as those in other countries, they must be relieved
30 of artificial burdens passed off by our people, our



1 various levels of government, by labour and by all who
2 believe that corporations can bear taxes and costs that
3 would otherwise be borne by people. Corporations, being
4 things, cannot suffer taxes or costs. To the extent that
5 these are paid from corporate funds, some people must
6 bear their burden. If our corporations are to succeed
7 we have no choice but to adopt tax and other fiscal
8 policies designed to ensure their success. This is not
9 because we want to favour corporations but simply because
10 in our own self interest we must achieve maximum
11 productivity through our corporations. Experience in
12 other countries has shown us that the only alternative
13 - socialism- provides lower living standards and eliminates
14 the personal freedoms for which generations of Canadians
15 have sacrificed so much.

16 12. Canada's tax structure was designed many years
17 ago to meet the economic conditions then obtaining.
18 Productivity and living standards are those of a
19 relatively undeveloped country, but government costs
20 were minimal as government services were limited to
21 defence, communications, education, and similar essentials.
22 Customs and excise duties were the basic source of
23 revenue for the federal government.

24 13. Two world wars caused huge increases in
25 federal government expenditures and thus in the need for
26 revenues to meet these costs. Late in World War I, and
27 as a wartime emergency measure, a tax was placed on the
28 incomes of individuals and corporations. When it sub-
29 sequently became clear that government revenues could not
30 be allowed to return to anything like pre-war levels, the



1 great revenue producer, the income tax, stayed. It had
2 originally been assumed that customs duties and excises
3 placed a heavy enough burden on manufactured products
4 (mostly imported) needed by the people or on "luxuries",
5 such as spirits and tobacco. The growth of secondary
6 manufacturing, however, combined with the need for more
7 government revenue, caused imposition of the federal sales
8 tax as a basic and important revenue source. Since the
9 depression years of the thirties, few really major changes
10 have been made in the tax structure, other than the very
11 great increases in tax rates imposed to finance in part
12 the cost of Canada's war effort from 1940 - 1945. As in
13 the case of the period after 1918, postwar government
14 costs did not come down, so that the tax burden has risen,
15 rather than dropping, since the end of the last war.

16. With government revenues spread between the
17 income tax, customs duties, excises and sales in the
18 decades of the twenties and thirties, the actual tax
19 rates were low and it is doubtful if any of the individual
20 taxes had great effect on the nation's economic growth
21 or diversification. Government services were not
22 extensive in today's terms, social "welfare" was largely
23 limited to emergency unemployment relief or pensions on a
24 means test basis. Thus, our tax and other fiscal policies
25 probably had a relatively minor influence on business
26 decisions, which were based almost entirely on market
27 considerations.

28. This free enterprise situation has, however,
29 been radically altered. With the high tax rates intro-
30 duced progressively during World War II, sales and excise



1 taxes rose sufficiently to influence buying and to cause
2 large scale tax evasion. Customs duty rates did not rise,
3 chiefly because they had become fixed by international
4 convention, thus giving increasing advantages to foreign
5 products in the Canadian market as Canadian wage rates
6 and related costs rose sharply. Both personal and
7 corporation income tax rates rose to levels at which they
8 seriously affected individual investment decisions and
9 drastically altered the factors determining business
10 policy. For the first time tax considerations, rather
11 than the market place, became paramount in many business
12 arrangements.

13 16. Canada thus finds herself with a combination of
14 government services and economic needs utterly different
15 from what existed before 1940, but relying essentially
16 on a tax and fiscal framework designed to meet pre-1940
17 needs when rates could be sufficiently low to avoid
18 interfering with free market influences. The high rates
19 now essential not only affect, but often supersede,
20 market considerations and thus our tax and fiscal
21 policies are affecting us in a manner that was not
22 intended when they were designed. In fact, the very
23 tax structure itself causes economic imbalances which,
24 of themselves, bring on the need for additional govern-
25 ment "social" payments. Thus, our task today is to
26 re-examine our economic objectives and to design a tax
27 structure which will aid their attainment, rather than
28 driving us in the wrong direction as at present.

29 17. The steep graduation of personal income tax
30 rates is defensible only on the basis of political



1 expendiency. The income thus siphoned off represents
2 an important part of Canada's potential savings, since
3 it is discretionary income, yet as a proportion of total
4 income tax revenue of government it is negligible. A
5 flat personal income tax of only three or four percentage
6 points above the present rate for the lowest bracket
7 would produce as much revenue as the present schedule
8 with a top rate six times the rate for the lowest bracket.
9 As a revenue producer, the graduated part of the tax is
10 relatively unimportant, but it represents a political
11 sop to the mass of the low income people who cannot be
12 expected to understand the damage done by a tax which
13 prevents a relatively important amount of investment in
14 new equity securities. The true disadvantages of the
15 steeply graduated personal income tax far outweigh the
16 advantage of political expediency, and it is strongly
17 urged that the Commission advise a sharp reduction in the
18 extent of graduation of personal income taxes.

19 18. The sharp graduation in personal income tax
20 rates has been directly responsible for the tremendous
21 increase in remuneration payable to employees in our
22 corporations. Because effective incentives require that
23 the net income received by an employee be sufficiently
24 more upon promotion to recompense him for increased
25 responsibilities, the rate of gross salary for each level
26 must advance fast enough to cover the increase in income
27 tax rate as well as providing more pay for extra
28 responsibility. Thus, current senior salary rates look
29 astronomical in terms of pre-war rates, although the net
30 after taxes remuneration progression from level to level



1 is not out of line with the pre-war relationship.
2 However, the higher gross costs must be charged in pro-
3 ducing goods in Canada, thus resulting in still one more
4 factor burdening Canadian production costs with taxes
5 and causing our goods to be less competitive with those
6 produced in countries with lower remuneration rates.

7 19. There is one connecting point between personal
8 and corporate income tax which should be mentioned here,
9 although it will also be referred to later. When the
10 income tax was first introduced, the purpose was to tax
11 the incomes of individuals from wages or salaries, from
12 investments or from other normal sources. It was
13 obvious that, in order to evade this new tax as much as
14 possible, shareholders would avoid taking dividends from
15 their companies, thus receiving their corporate earnings
16 in the form of capital gain rather than as dividends.
17 And so, in addition to raising revenue by taxing corporate
18 profits, as such, it was necessary to eliminate the
19 incentives to shareholders to escape the personal tax
20 on dividends. The law therefore "deemed" dividends to
21 be paid if an excessive amount of earnings were retained.

22 20. While changes to the personal income tax
23 structure are desirable, the greatest damage to Canada's
24 future prosperity is caused by the corporation income
25 tax. This tax, which siphons off for government use
26 more than half of the total corporate profits earned in
27 Canada, has a number of distinct and clear effects, every
28 one of which is harmful to our economic success.

29 21. From the inception of the corporation income
30 tax, thinking people recognized that a company, being a



1 thing, cannot bear taxes - that only people can bear
2 taxes. Certainly the corporate tax is calculated on
3 corporate profits and is paid out of the corporate bank
4 account. But since only people can own property, earn
5 incomes and pay taxes, the effective burden of the
6 corporation tax necessarily has to fall on people.
7 However, this concept has long since been forgotten, if
8 it was ever understood, by most Canadians. Most people,
9 aided by our politicians, have convinced themselves that
10 corporations are large, soulless pools of wealth from
11 which high taxes can be paid without in any way hurting
12 the people who would otherwise have to pay these taxes.
13 At the same time, people believe, our companies can
14 afford high wages while also taking on the burden of
15 financing universities, schools, concert halls and art
16 galleries that would otherwise have to be paid for by
17 people.

18 22. Recognizing that a company cannot in fact bear
19 a tax burden, any tax collected from corporations must
20 be passed on to people. The passing on was not too impor-
21 tant before 1940, when the tax rate was at or below 15%.
22 It probably had some slight effect on prices, and it
23 undoubtedly had some effect on dividends. However, once
24 the tax rate came to exceed 50%, leaving government as
25 the silent partner in business taking more than half
26 the profits but none of the risk, the impact of the tax
27 had to be radically altered. May studies have been made
28 of the impact of the corporation income tax, to determine
29 who in fact bears its effect. Unfortunately, none has
30 reached a conclusive answer, at least in quantitative



1 terms, although all agree that the tax burden becomes
2 distributed over four groups, namely:

3 (a) shareholders, to the extent that it causes
4 lower profits and dividends;
5 (b) customers, to the extent that it causes
6 higher prices;
7 (c) employees, to the extent that it depresses
8 wages; and
9 (d) Canadians as a whole, to the extent that, by
10 adding to costs, it makes our products less
11 competitive opposite foreign-made products,
12 thus causing lower production and employ-
13 ment in Canada.

14 Before considering the tax impact on these groups, however,
15 I propose to review a few broad points of economic
16 philosophy in order to establish some essential components
17 of our future objectives.

18 23. The productivity - that is, output per man
19 hour - of the modern world has increased tremendously
20 since 1940, at a rate which is almost frightening.

21 Technological breakthroughs have been the essential
22 factor, but sheer wealth generation has also been im-
23 portant. For, as technological advances increase
24 productivity, more wealth is generated and thus more is
25 available as capital to invest in new equipment to
26 advance productivity still further. Once the process
27 gains headway it feeds upon itself, and the speed of
28 change increases in geometric progression.

29 24. Technical knowledge exists today for the
30 automation of much of our total productive process. We



1 know how to make all the goods the free world needs to
2 support present living standards, using only a fraction
3 of the available working hours. Increasing productivity
4 is generating the capital needed to employ this
5 technical knowledge, and increasing wage demands by labour
6 are providing the incentive to adopt labour-saving
7 techniques. Marginal or sub-marginal living standards in
8 most of the world hold out some promise for employing
9 workers, but unless the production takes place in those
10 areas their living standards cannot be raised. Thus,
11 because of the changes which have taken place within the
12 past twenty years, and which are only beginning to be felt,
13 we face a totally new situation in living standards, in
14 employment, in international relations, and in our whole
15 concept of economic life. Our problem in this situation
16 is to devise the means to assure our people of adequate
17 incomes to maintain living standards even if we must
18 live with high unemployment.

19 25. What is the basis of national prosperity?
20 Obviously, no nation can be prosperous without a high
21 total national production. But high productivity of itself
22 will not necessarily assure general prosperity. National
23 prosperity exists when a nation's households have high
24 standards, but this necessitates a very wide distribution
25 amongst the people of the high national production. Two
26 examples of how high productivity need not result in high
27 living standards may serve to point up fundamental
28 weaknesses in Canada's position:

29 (a) In the great colonial empires, production
30 in the colonies rose sharply following



1 conquest, but because much of the new
2 wealth flowed back to capital owners in
3 the parent country, living standards of
4 the natives in the colonies stayed very
5 low. Thus, foreign ownership of capital
6 can prevent a nation from benefiting from
7 its production.

8 (b) In the agrarian countries, where land is the
9 chief source of wealth, land ownership,
10 and thus its fruits, becomes concentrated
11 in a ruling landlord class. Because the
12 peasants have no means of acquiring land,
13 and because the landlords, being in absolute
14 control, have historically kept wage rates
15 at virtual subsistence level, living stan-
16 dards for the households are low even
17 though the landlords live in luxury. Thus,
18 concentration of wealth also results in low
19 general living standards, even with high
20 production.

21 26. Because of modern productive processes, land is
22 no longer the main source of wealth. Capital other than
23 land is becoming increasingly important as the source of
24 wealth generation, and thus for our people to be pros-
25 perous it is important for them to own capital. When land
26 was the basis of income generation Canadians worked long
27 hours on the land to support themselves and there was
28 virtually no unemployment as there was always more land
29 to work. However, unemployment came with secondary
30 manufacturing although originally because of cyclical



1 factors which caused recessions and booms. Having
2 developed economic tools, such as cyclical budgeting,
3 to minimize these phenomena, we are now about to enter
4 an age of automation in which, because machines do the
5 work of men, we need not in fact be busy. We will have
6 high leisure time or high unemployment - whichever we
7 choose to call it. There have been parallel developments
8 in the history of mankind - the advance from the stone
9 age to the iron age, then to feudalism, to the renaissance
10 and to the age of power or energy. But in the past these
11 transitions usually took place over several centuries
12 leaving people ample time to make adjustments. The
13 exception, the industrial revolution, caused crises com-
14 parable to those we now face. Today we are not ready
15 for automation - either economically or psychologically -
16 yet it is developing very rapidly even while most of our
17 leaders continue to preach full employment. Those charged
18 with responsibility to plan our economic course and the
19 fiscal policies which will determine this course have a
20 tremendous task, the gravity of which increases almost
21 daily.

22 27. Since technological advances bring increased
23 productivity, our gross national income will advance as
24 we adopt these technological gains. However, because this
25 higher income will result from employing more capital and
26 less labour it follows that the proportion of national
27 income distributed to capital owners should rise and that
28 to workers as such should fall. For we cannot attract
29 the capital needed to take advantage of technological
30 gains unless we offer it fair rewards, and we cannot pay



1 labour an unreasonable share of income because to do so
2 would make our products non-competitive. We shall have a
3 higher national income, but unless we have a much broader
4 base of capital ownership amongst our households this
5 higher income will be concentrated in fewer hands thus
6 causing a falling off in general prosperity.

7 28. There are basically two methods of getting
8 income to our households under conditions of high national
9 income and relatively low employment. The first is to
10 broaden the base of capital ownership, using whatever
11 fiscal incentives are needed to achieve this end, so that
12 our households receive their income from capital owner-
13 ship to supplement the reducing income from work. The
14 second is to continue to allow the concentration of wealth
15 ownership and to raise taxes on income from capital to
16 whatever level is necessary to pay to the unemployed
17 enough in relief payments to provide them with average
18 living standards. The former method leaves with our
19 people all the incentives for greater productivity and
20 the freedoms which go with economic independence. The
21 latter gives only incentives to lower productivity and
22 ultimately to outright totalitarian socialism as the
23 number of unemployed voters becomes sufficient to support
24 the political party dedicated to expropriation of wealth.
25 Thus, we need to eliminate fiscal policies giving in-
26 centives towards the concentration of equity capital
27 ownership and we need to adopt fiscal policies giving
28 incentives to decentralization of equity capital owner-
29 ship.

30 29. The formula for prosperity in Canada contains



1 two essential factors - a high national income and a
2 broad distribution of this income. The former can come
3 only with high productivity in Canada, which, in turn,
4 requires our products to be competitive with foreign
5 products in supplying demand in Canada, and in allowing
6 balance in our international payments. The latter requires,
7 as explained above, a broad distribution of capital
8 ownership. The corporation income tax provides incentives
9 which are directly contrary to both these objectives,
10 particularly when its effects are combined with those of
11 the steeply graduated personal income tax.

12 30. The corporation income tax provides incentives
13 to inefficiency because it causes the expenses of business
14 to cost the businessman or the shareholder less than fifty
15 cents on the dollar. Since the tax rate was more than
16 tripled after the pre-war years, there has been a marked
17 change in expenses of business, in the outlook of
18 managers on the control of costs, and in the attitude of
19 the public in urging business to pay social costs. This
20 is evidenced in several ways:

21 (a) the pressure of unionized labour for higher
22 wage rates not based on productivity has
23 been openly supported by government and
24 the public on grounds that taxes pay half
25 the cost anyway;

26 (b) the pressure for industry to finance the
27 construction and operation of universities,
28 schools, hospitals, art galleries, concert
29 halls and so forth is openly pressed on the
30 basis that the business cost is only fifty



1 cents on the dollar;

2 (c) expense account living, including travel,
3 club membership, company planes and cars,
4 lavish offices and all the other para-
5 phenalia of business life today are based
6 on the premise that the net cost after
7 taxes is insignificant;

8 (d) high remuneration rates need to compensate
9 for the steep graduation in personal taxes
10 are tolerated by the fact that "the
11 government pays half."

12 Thus high corporation tax rates have broken down the drive
13 for management to be efficient and to cut costs. To this
14 extent, the tax has undoubtedly hurt production and employ-
15 ment in Canada.

16 31 . The corporation income tax is necessarily
17 extremely complex, thus causing every company to employ
18 highly trained tax experts in both the legal and accoun-
19 ting fields. Medium and larger sized companies employ full-
20 time staffs solely to ensure that their tax payments are
21 minimized, and they also rely extensively on external
22 professional experts. Small companies rely mainly on
23 outside professional help. But the total cost of this
24 tax compliance represents a vast burden on Canadian
25 business - undoubtedly well over a hundred million dollars
26 a year, and possibly two or even three times this figure -
27 a burden which would be virtually eliminated if the
28 equivalent government revenue were to be raised by the
29 more simple sales, excise and personal income taxes.
30 Recognizing that such complex legislation requires great



1 skills for administration and compliance, it is clear that
2 there is a huge hidden cost to Canada in keeping so large
3 a proportion of her finest minds engaged solely on such
4 non-productive or sterile work.

5 32. The corporation tax, combined with the effect
6 of the graduated rates of personal income tax, is causing
7 the concentration of wealth because it gives incentives
8 to companies to finance growth internally without the
9 issue of new equity securities. Under the free enterprise
10 system, all production is in the hands of our corporations,
11 and all economic growth takes place through their ex-
12 pansion. Since the 1940-1945 increase in tax rates, there
13 has been a sharp rise in the proportion of total industrial
14 expansion financed without the issue of new equity
15 securities, until this ration is now well over 90% for all
16 of North America. Recognizing that equity securities,
17 rather than debt securities, are the basis for distributing
18 that part of national income allocated to the capital
19 sector, a constant increase in equity securities is
20 necessary to provide a broadening capital ownership base
21 for a growing number of households. Existing equity
22 securities are being bought up by institutional and
23 foreign holders, leaving a pitifully small volume of
24 securities available for an increasing demand. Thus, the
25 stock market value of equities has risen until the
26 traditional pattern of yields has been reversed, and the
27 yield on equities is less than the yield on bonds.

28 33. The main tax incentives towards financing of
29 growth in existing corporations without the issuance of
30 new equity securities, and thus towards the centralization



1 of wealth, may be summarized as follows:

2 (a) High personal tax rates cause shareholders
3 to prefer to leave earnings in their
4 companies in order to make capital gains.
5 This incentive was recognized in the
6 original tax law by "deeming" dividends to
7 have been paid if earnings retention was
8 unnecessarily high. However, because the
9 high corporation income tax rate made the
10 inequity of double taxation so obvious, this
11 "deemed to be distributed" section of the
12 law was repealed, leaving shareholders
13 free to convert earnings after corporate
14 taxes into capital gains.

15 (b) The allowance of interest on debt as an
16 expense, but the disallowance of dividends
17 as a deduction for corporation tax purposes,
18 gives great leverage to debt financing
19 which is then repaid out of accumulated
20 earnings. The financing of growth in this
21 way prevents new capitalists from sharing
22 in productivity as all the gains go to
23 existing shares except for a small amount
24 of interest paid out before debt is retired.

25 (c) Special tax rules on depreciation have
26 become of great significance in recent
27 years, because they are used to give tax
28 incentives to stimulate growth. But these
29 rules provide industry with huge amounts
30 to pay for growth without issuing new equity.



1 securities and without incurring interest
2 charges on borrowing.

3 34. To be prosperous in the future, we shall have
4 to keep our production costs competitive and we shall have
5 to ensure participation by our households in our economic
6 growth through owning equity securities. This calls for
7 a constantly increasing flow of new equity securities to
8 finance our growth. Thus, to be prosperous, we should
9 eliminate the corporation income tax and we should sharply
10 reduce the degree of graduation in the personal income
11 tax both of which urge us to finance growth from internal
12 corporate funds. Because of the large, and growing,
13 importance of the corporation income tax as a source of
14 government revenue, however, it is necessary to consider
15 the impact of the proposal on government revenue sources
16 and the manner in which the necessary alternative
17 revenues can be raised.

18 35. First, let us emphasize again that a corporation,
19 being a thing, cannot in fact bear a tax burden. While
20 the taxes may be calculated on corporate profits, and
21 paid from the corporation's bank account, only people can
22 bear the ultimate effect of this tax, and the people who
23 suffer must be in one of the following groups:

- 24 (a) shareholders;
- 25 (b) customers;
- 26 (c) employees;
- 27 (d) Canadians as a whole.

28 Elimination of the corporation income tax could only be
29 beneficial for groups (b), (c) and (d) because the effects
30 would be to reduce the price of goods, to allow for higher



1 wage rates, and to increase employment and incomes in
2 Canada as our products become more competitive. Furthermore-
3 more, the effect on shareholders would also seem to be
4 good because of the elimination of the inequitable double
5 taxation at present applying on net corporation profits
6 distributed as dividends. The imponderable is the extent
7 to which Canadians as a whole would pay more income, sales
8 and other taxes if the corporation income tax were to be
9 removed, but this is believed to be negligible.

10 36. If the corporation income tax were to be repealed,
11 it would clearly be necessary to impose a substantial
12 tax on undistributed corporate earnings in order to
13 circumvent the obvious incentives to shareholders to
14 convert corporate earnings into capital gains by reducing
15 dividend payout. Assuming a rate of well over 50% on
16 undistributed profits, and probably as high as 75% on
17 retained earnings above a cumulative figure equal to
18 paid in capital, virtually all corporate profits would
19 presumably be distributed. Although there would be a
20 tendency for prices of goods to come down, this would
21 start slowly because the prices of almost all goods in
22 Canada are determined by those set in world markets. Thus,
23 a reduction in costs, even as large as the elimination
24 of corporate income tax, would not immediately be reflected
25 in lower selling prices. As prices came down, they would
26 drop in order to gain greater volume for Canadian
27 manufactured products, thus increasing corporate profits
28 and wages in Canada.

29 37. At present, less than one half of corporate net
30 income is paid out of dividends, and corporation taxes



1 take over half of income otherwise available for dividends.
2 Thus, if there were no corporation income tax, and if all
3 earnings were to be paid out of shareholders, dividends
4 would be more than four times the present figure with no
5 change in corporate profits.

6 38. Dividends of Canadian companies go to various
7 types of shareholders, most of whom would fall within the
8 following groups:

- 9 (1) Canadian individuals;
- 10 (2) Canadian institutions, including trusteeed
11 funds of all types;
- 12 (3) Canadian corporations;
- 13 (4) Foreigners.

14 Under present tax law, Canadian individuals pay full
15 personal tax on dividends, Canadian corporations or
16 institutional shareholders usually pay no tax on dividends,
17 and foreigners pay the 15% tax deducted from dividends
18 remitted to them.

19 39. There can be no justification in equity for
20 taxing the dividends received by Canadian individuals
21 from their corporate operations at a sharply higher rate
22 than that applying to their other income. Thus, to the
23 extent that the corporation income tax (less the 20% tax
24 credit) there is obvious inequity. Therefore, if the
25 corporation income tax were to be eliminated, dividends
26 paid to Canadian individuals should continue to be taxed
27 as ordinary personal income, but the 20% tax credit should
28 be eliminated. Because equity shares tend to be held by
29 individuals in the medium and higher tax brackets, and
30 recognizing that the incremental tax effect will apply at



1 the highest income bracket of the individual, the calcula-
2 tions which follow assume that there would be a total
3 personal tax of 50% on dividend income received by
4 Canadian individuals.

5 40. Canadian institutional and corporate share-
6 holders do not normally pay tax on dividends from Canadian
7 corporations. In most cases, of course, institutions
8 such as university trust funds, pension funds and so forth
9 are free of any tax. However, since the total corporate
10 income earned in respect of their shareholdings is at
11 present subjected to a tax of over 50%, their position
12 would be no worse than at present if the corporation tax
13 were to be removed but they were to be taxed at 50% on
14 any dividends from Canadian corporation. Since corporate
15 and institutional accounts are one of the significant
16 factors in the potential concentration of wealth, it is
17 important to one of our fundamental objectives that they
18 not hold equity securities. Therefore, by imposing the
19 50% tax on dividend income of these accounts, we would
20 give them an incentive to avoid equity securities without
21 harming their net income position on present holdings.

22 41. The position of foreign shareholders is of the
23 utmost importance because they now own over 60% of all
24 Canadian equity securities. What is more dangerous to
25 our future prosperity is the fact that foreign holdings
26 are concentrated in our most productive and most modern
27 industries, so that the proportionate share of national
28 income going to foreigners may well be in excess of that
29 based on ownership of 60% of our equities. While foreign
30 ownership of a country's productive resources can only



1 damage its living standards, this is not a subject for
2 the present submission. Rather, being concerned at this
3 time only with the tax treatment of foreigners, it is
4 fair to say that at present the corporation tax is levied
5 on the total profits applying to their holdings of shares,
6 and that they then pay a further 15% on the amount of any
7 dividends remitted. Thus, if we eliminate the corporation
8 income tax and substitute instead a 50% tax on all divi-
9 dends credited to foreigners, plus a further tax of $7\frac{1}{2}\%$
10 on the gross amount of any such dividends remitted outside
11 the country, the foreign shareholder would be no worse
12 off than at present, and would pay probably about the same
13 tax as the typical Canadian shareholder. Recognizing
14 that his Canadian company benefits fully from all govern-
15 ment services in this country, there is no reason why the
16 foreigner should not pay such a tax on his Canadian income
17 earned through the corporate route.

18 42. Because government statistics available to the
19 Commission on incomes and taxes will be so much better
20 than those available to the individual citizen, no attempt
21 has been made to obtain definite up-to-date figures to
22 show the effects of the above tax change proposals on
23 current revenues. However, the figures used below are
24 within "order-of-magnitude" range, and will be in pro-
25 portion to whatever current figures are available, and
26 they therefore give a fair illustration of the effects of
27 the proposals.

28 43. Assuming corporate taxable incomes in Canada
29 totalling \$3,000 millions the corporation income tax is
30 about \$1,500 millions, and dividends paid are about



1 \$750 millions. The 15% tax paid by foreigners on
2 dividend distributions totalling \$450 millions is \$67½
3 millions. If 20% of all dividends are paid to institutional
4 and corporate accounts, this leaves \$150 millions
5 in dividends to be paid to Canadian individuals on which
6 we will assume a 50% tax, or \$75 millions. Against this
7 last figure must be offset the 20% dividend tax credit of
8 \$30 millions. Therefore, the total tax burden on \$3,000
9 millions of corporate profits at present would be \$1,612½
10 millions.

11 44. On the basis of the assumptions or proposals in
12 paragraphs 39 to 41 inclusive, the government revenues to
13 be obtained from a comparable corporate income of \$3,000
14 millions would be as follows:

15 From foreigners 57½% of \$1,800 millions	-	\$1,035 millions
16 From Canadian institutional and corporate		
17 holders 50% on \$600 millions	-	300 millions
18 From Canadian individuals 50% on \$600		
19 millions	-	300 millions
20 Total tax	-	\$1,635 millions
21		

22
23 Obviously, the net dividend after the 50% tax
24 received by corporate shareholders could then be classified
25 as tax paid surplus in their hands. If the tax levied on
26 foreigners were left at 50% of dividends, the same as that
27 applying to Canadian shareholders, the total tax would
28 be \$1,500 millions or \$112½ millions less than the present
29 corporation income tax.

30 45. The above summary calculation is designed to show



1 that the proposals to eliminate the corporation income
2 tax, combined with the other related proposals, need not
3 cause any significant reduction in government revenues.
4 Such a calculation, however, ignores a number of side
5 effects which are of great importance, all of which add
6 weight to the case for removing the tax. Some discussion
7 of such side effects seems desirable.

8 46. If the corporation tax is eliminated as a cost
9 factor, Canadian selling prices would drop to the extent
10 that this action would result in higher output and profits
11 on Canadian operations. Thus living standards would
12 benefit, employment in Canada would increase, profits
13 would go up and so would government revenues.

14 47. Elimination of the corporation income tax would
15 save the country the very great costs involved in complying
16 with the tax law, compiling records, filing returns,
17 maintaining expert tax accountants and lawyers, and in
18 maintaining the corporation tax section of the government
19 internal revenues department. This cost is a huge amount,
20 and is included in the operating costs of our companies.
21 Thus, it is one more factor which would go to help make
22 our products more competitive.

23 48. Probably the greatest direct benefit from the
24 elimination of the corporation tax would be the removal
25 of its great incentives to inefficiency, to expense
26 account living, to the incurring of unnecessarily high
27 costs and expenses just because the net effect is less
28 than fifty cents on the dollar. Such a benefit cannot be
29 measured, but ought to be of tremendous significance to
30 the efficiency and competitiveness of Canadian business.



1 49. Elimination of the corporation income tax would
2 remove some major incentive towards the concentration of
3 wealth, and would result in an immediate sharp increase
4 in the proportion of industrial growth financed by new
5 equity securities. This would come about by cancelling
6 the great leverage factor in favour of debt financing,
7 at the same time keeping to a minimum the retention of
8 earnings for growth. It must be clear that, because total
9 national production would increase, the country would have
10 more capital available for investment. Therefore, the fact
11 that less would be available within existing companies
12 for internal financing of growth need have no detrimental
13 effect upon the country's actual growth.

14 50. One other side effect would be the elimination
15 of the opportunity for capital gain through earnings
16 retention. This has been the recent incentive causing
17 common share prices to rise until yields are far below
18 those on debt securities. The high rate of corporation
19 tax has made it politically impossible to force a high
20 dividend payout as well, since the inequity of confiscatory
21 double taxation would be so obvious. Thus, the corpora-
22 tion tax has acted to keep down dividends and to allow
23 shareholders to accumulate tax-free capital gains. It is
24 not intended that Canadians or foreigners should get
25 tax-free income through the corporate route, and thus
26 capital gains cannot be defended if they arise from the
27 accumulation of income in a manner designed to evade tax.
28 such a practice can only end with imposition of a capital
29 gains tax.

30 51. The resulting sharp increase in new equity share



1 issues, combined with the much higher rate of dividend
2 payout, would make these securities more interesting and
3 more available to our households. This result is in line
4 with one of our greatest economic needs, and is one of the
5 most important reasons supporting elimination of the
6 corporation income tax. The financial means for broadening
7 the ownership of securities will be difficult to devise,
8 although the intelligent use of sound credit can help.
9 However, this problem can be solved once its importance
10 becomes generally recognized.

11 52. The imposition of a heavy tax on undistributed
12 profits would call for essential legal provisions to enforce
13 this tax and the distribution of earnings. These legal
14 provisions need by only a small fraction of the present
15 law, once the principle is no longer to tax total
16 corporate income. Greater reliance would have to be placed
17 on auditors to ensure that sound accounting principles
18 are applied, and extremely heavy penalties should apply
19 to deliberate tax evasion. Enforcement of this tax would
20 cost only a tiny fraction of the cost of complying with
21 the corporation income tax since few companies need be
22 seriously concerned once the principle of total distribution
23 of earnings is accepted.

24 53. There have been many statements to the effect
25 that corporations should be encouraged to retain earnings
26 for expansion because, if earnings were to be paid out in
27 full, shareholders would spend the money on higher living
28 and our economy would stagnate. Such arguments are
29 unsound for several reasons, but surely the most important
30 is that, unless we are free as individuals to own and



1 dispose of property, we have no freedom. Under capitalism
2 a shareholder invests to earn a profit. The profit is
3 the incentive, and if his company makes a good profit he
4 will invest again to make more. But if he chooses to
5 raise his living standard rather than save, that is his
6 right. The profit is his to use as he wishes, and no
7 manager should have the right to determine whether a
8 shareholder may live better or whether he must save
9 whether he likes or not. If higher dividends result in
10 better living standards, the increased demand will ensure
11 more employment and prosperity. Capital will always be
12 available if the incentive is adequate.

13 54. Management claims superior ability to make
14 decisions on business expansion. Yet the evidence does
15 not support such claims. The theory of capitalism is that
16 capital will be invested in a project which offers a proper
17 return, and that the return needed to attract capital will
18 vary according to risk. The return is the incentive to
19 invest. However, if growth is financed internally,
20 management does not have to justify its plans to investors.
21 The incentives for management are based on power rather
22 than on return, and thus management often prefers to grow
23 for growth's sake rather than earn the optimum rate of
24 return on each dollar of investment.

25 55. In recent years the management urge for growth
26 has caused the modern phenomenon of diversification. This
27 process puts chemical companies in the textile business,
28 distilleries in the oil business and oil companies in the
29 chemical business. It makes for larger companies, but
30 it may well be an inefficient process for the nation. If



1 there are in fact special skills needed in complex modern
2 business, surely it would be more efficient for the oil
3 companies to take care of expanded oil needs and for
4 chemical companies to increase chemical capacity as
5 required, rather than for oil experts to dissipate their
6 special skills on chemical problems while chemical experts
7 get all mixed up with oil. The basis of diversification
8 is usually the urge for tax-free capital gains or the
9 desire of management to retain cash rather than distribute
10 it to its owners (shareholders) at the same time holding
11 out to shareholders the bait of greater security. In
12 most cases diversification has probably caused a lower
13 rate of return on total operating investment. If companies
14 were obliged to rely to a much greater extent on raising
15 new equity capital to finance growth, issuing the necessary
16 prospectus to justify each project, it is believed that
17 growth would be undertaken more efficiently thus improving
18 the competitive position of Canadian products and increasing
19 employment and incomes of Canadians.

20 56. Another modern phenomenon caused to no small
21 extent by low dividend payout rates is the takeover of
22 Canadian companies by foreign corporations, by other
23 Canadian companies, or by governments. Low dividends
24 inevitably cause the market value of shares to be less
25 than would be the case if total earnings were distributed.
26 This, in turn, means that an offer can be made for all
27 the shares at a price above current market, but still well
28 below the true value of the company. The number of large
29 Canadian companies taken over by foreigners or by
30 provincial governments at bargain prices in the past few



1 years certainly shows that shareholders, the true owners
2 of the company, are seriously hurt by the refusal of
3 management or directors to pay out all earnings as
4 dividends.

5 57. Any nationalization of a utility or a producing
6 corporation is, of course, a step in the progress towards
7 socialism. Probably the worst feature of this process
8 is the fact that it removes large quantities of equity
9 securities from the market thus making it that much more
10 difficult to broaden the base of equity capital holdings
11 amongst our households.

12 58. It can only be concluded that the corporation
13 income tax is an unsound tax, that its effects are harmful
14 to Canada's employment, prosperity and living standards,
15 and that it is not in fact needed as a revenue-producer
16 by government. It must, of course, be emphasized that
17 these comments apply to the tax levied by any level of
18 government, and for the most part comments apply with equal
19 force to other types of tax, such as the special Quebec
20 Education Tax applying to resource companies, which
21 purport to place a tax on things (companies) rather than
22 people.

23 59. If the tax is paid largely by shareholders,
24 then its removal, combined with enforcement of high
25 dividend payout, will leave shareholders paying the
26 appropriate amount of tax on this income as individuals
27 rather than in their corporate form. The equitable amount
28 of tax would still be collected from shareholders, but
29 we would end the incentives to inefficiency, the incentives
30 to financing growth without the issue of new equity



1 securities, and the obvious inequity of double taxation
2 on dividends now paid. At the same time, Canadian products
3 would become more competitive thus increasing production,
4 employment and incomes in Canada. The change need make
5 no difference to foreign shareholders as the tax on
6 dividends would simply replace the tax now paid on
7 corporate profits applicable to their shareholdings. It
8 would impose a tax on Canadian corporate and institutional
9 shareholders equal to the amount now paid on profits
10 applying to their shares.

11 60. If the tax is paid largely by consumers, then
12 the immediate effect would be to transfer no small part
13 of the burden to shareholders since dividends, and
14 thus the tax on dividends, would rise sharply. But this
15 would not be inequitable because if our companies are in
16 fact passing the tax on to consumers and at the same time
17 retaining more than half their earnings, then shareholders
18 are in fact getting a large amount of income free of tax.
19 On this basis, elimination of the corporation income tax
20 would place the tax burden where it properly belongs, but
21 if the tax is in fact included at present in higher prices
22 then prices would come down, thus increasing Canadian
23 living standards, production and employment.

24 61. The arguments set forth in this brief in favour
25 of eliminating the corporation income tax have always been
26 valid, but because they become more obvious with the tax
27 rate at confiscatory levels than was the case before 1940
28 with the rate at 15% or lower. However, the reasons
29 for eliminating this bad tax are becoming rapidly more
30 urgent as our national productivity grows through automa-



1 tion thus calling for fewer work hours to produce all
2 we can distribute. As the productivity of capital gains
3 and that of labour diminishes, outright socialism is
4 inevitable unless we can broaden the base of capital
5 ownership sufficiently for many of our households to
6 receive their incomes as capitalists. Socialism involves
7 the vesting of all property and all economic power in the
8 state, and thus the end of all personal freedoms. Elimina-
9 tion of the corporation income tax alone will not solve
10 our problem, but no solution is possible without elimina-
11 tion of this tax. The basic Soviet economic texts all
12 state that the taxing of corporations in capitalist
13 countries will bring about the destruction of capitalism.

14 62. If, by following the free enterprise capitalist
15 route to prosperity, we can effectively broaden the base
16 of capital ownership by our households, it is obvious that
17 there would be a very great drop in government revenue
18 needs. Unemployment relief could be limited to the
19 physically unemployable, and the need for old age security
20 and family allowances could rapidly decrease. Thus by
21 this route, and only by this route, is there any real
22 hope for making our people economically independent of
23 the state and for decreasing the crushing burden of
24 taxation now heaped onto our productive system.

25 63. Obviously, such changes cannot come about in one
26 single step. However, a progressive reduction in
27 corporation income taxes to zero over five years,
28 accompanied by progressive imposition of taxes on un-
29 distributed income and on dividends paid to foreigners,
30 to institutions and to Canadian corporations, would achieve
the needed result with no serious dislocation.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1

2

3

4

5

6

Brief

7

for presentation to

8

THE ROYAL COMMISSION ON TAXATION

9

by

10

The National Council of Women of Canada

11

12

13

14

15

16

17

18

190 Lisgar Street

19

Ottawa 4

April, 1963

20

21

22

23

24

25

26

27

28

29

30



1 1. The National Council of Women of Canada, which
2 has the honour to present the following submission,
3 comprises fifty-six Local Councils of Women, seven
4 Provincial Councils of Women and twenty-one Nationally
5 Organized Societies in Federation, with a membership of
6 approximately 700,000 women from coast to coast.

7
8 2. The Council was founded by Lady Aberdeen, wife of
9 the then Governor-General of Canada, in 1893, incorporated
10 by Statute of the Parliament of Canada in 1914 (R.S.C.
11 Chapter 147) and amended under Act 10, George VI,
12 Chapter 85, in June of 1946. The object of the Council,
13 as stated in the Act of Incorporation, is "to unite a
14 Dominion federation, for the betterment throughout
15 Canada of conditions pertaining to the family and the
16 state, all societies and associations of women interested
17 in philanthropy, religion, education, literature, art or
18 social reform".

19
20 3. In order to further its object, the Council
21 carries on work through committees for the gathering and
22 disseminating of information as to conditions and
23 requirements in various parts of Canada. Decisions on
24 policy and on action are made by means of resolutions,
25 based on studies undertaken by the organizations
26 comprising the Council and adopted at an annual meeting
27 of the Council. It is on such resolutions that the
28 submission of the Council is based.



1 TAXATION ON ANNUITIES, PENSIONS, ETC.

2
3 4. In accordance with An Act Respecting the Taxation
4 of Estates, September 6, 1958, as amended July 7, 1960,
5 pensions, annuities, etc. are included in the estate for
6 taxation purposes at their capitalized value. The
7 National Council of Women submits that such capitalization
8 is a breach of the general principles of evaluation for
9 taxation purposes in that it is based on an average and
10 does not allow for vicissitudes. In addition, it is not
11 comparable to other assets of the estate as it cannot be
12 transferred and the recipient cannot deal with the
13 capital in any way. The payment of the tax works a
14 hardship on the widow, as it must be paid in not more
15 than six equal annual consecutive instalments. In the
16 case of a young widow, whose pension would have a high
17 capitalized value, the payment of such instalments is
18 a severe hardship during the years when she is most
19 likely to need extra support for herself and for her
20 children, if any.

21 5. The inequity is recognized by the amendment of
22 1960 in which re-assessment is permitted in the event of
23 the death or remarriage of the annuitant within four
24 years. The National Council of Women submits that the
25 four year limit on reassessment is unjustified and that
26 the Estate Tax does not bear a proper relationship to
27 the benefit received. The value of the pension should
28 be taken as a percentage of the gross value of the
29 estate and the same percentage of Estate Tax should
30



1 relate to the pension. The amount of tax attributable
2 to the pension should be payable over the same number of
3 years as that used in computing the capitalized value of
4 the pension. *If the pension ceases before the
5 expiration of the calculated time, the Estate Tax should
6 be deemed to have been paid in full.

7
8 6. Not only does the widow have to pay the Estate
9 Tax but also she must pay Income Tax on her annuity,
10 with only an insignificant deduction being allowed under
11 Part I, Division B, Section 11 (1) (v) of the Income
12 Tax Act. The deduction itself is based on the capitalized
13 value of the pension to which the National Council of
14 Women has taken exception supra. The National Council
15 of Women submits that the annual Estate Tax instalment
16 payment proposed supra as a solution to the payment of
17 Estate Tax on pensions, etc., should be an allowable
18 deduction in computing taxable income. Thus, the double
19 taxation at present existing would be simply and
20 effectively eliminated.

21
22 * Example:

23 Widow aged 50

24 Present value factor 14.75861 or approximately 15

25 Value of pension is half of the value of the estate

26 Total Estate Tax payable \$3,000.

27 Therefore, tax attributable to pension \$1,500. which
28 should be paid in annual instalments of \$100. over a
29 15-year period.



1 ESTATE TAX ACT DEDUCTIONS

2 7. Under Part I, Division C, Section 7, (1) (a)

3 (1), of An Act Respecting Taxation of Estates,

4 7 Elizabeth II, Chapter 29, September 6, 1958, \$60,000.

5 is the amount deductible in computing the aggregate
6 taxable value of an estate of a deceased male person
7 survived by a spouse. The National Council of Women
8 submits that one-half of the estate should be regarded
9 as belonging to the widow as of right, in recognition
10 of her contribution to the marriage partnership, and
11 therefore should not be included in computing the
12 aggregate taxable value of the estate.

13 8. At present rates of interest, a safe investment
14 programme for the average widow could not be expected to
15 yield more than $4\frac{1}{2}\%$ per annum or \$2,700. on \$60,000.

16 If it is not deemed feasible for taxation purposes to
17 regard one-half the estate of the deceased spouse as
18 belonging to the widow, the National Council of Women
19 respectfully submits that the exemption should be raised
20 to at least \$100,000. which would yield only about \$4,500.,
21 a small income in the light of the cost of living index
22 at the present time.

23 9. Section 7, supra, (1) (c) (1), permits a
24 deduction of \$10,000. or \$15,000., as set out, in the
25 case of a surviving child under twenty-one years of age
26 or twenty-one and over and wholly dependent by reason of
27 being infirm. Since $4\frac{1}{2}\%$ interest on \$10,000. (\$450.) or



1 on \$15,000. (\$675.) is inadequate to feed, clothe,
2 educate, house and otherwise provide for a school-aged
3 child, * the National Council of Women submits that
4 the deduction should be based on the basic sum of
5 \$10,000. or \$15,000. as the case may be, plus an
6 additional \$1,000. for each year of age under twenty-one
7 years. This would better ensure adequate care and
8 education of the child and would render it possible to
9 encroach on capital with impunity to meet his needs.
10 Further, the National Council of Women submits that
11 consideration should be given to extending the exemption
12 of \$10,000. or \$15,000. where a surviving child is
13 twenty-one years or over and still in full-time
14 attendance at an institution of higher learning (post-
15 secondary school level).

16
17 * As an example of food costs alone, in January, 1963,
18 the Montreal Diet Dispensary calculated the costs as
19 follows, basing the calculations on the Canadian Dietary
20 Standards recommended by the Canadian Council on Nutrition:

21	Child 10-12	\$20.33 monthly
22	Girl 13-15	\$24.23 monthly
23	Boy 16-20	\$30.82 monthly

24

25 INCOME TAX OF EMPLOYED SPOUSE

26

27 10. Part I, Division A, Section 2(1), of the
28 Income Tax Act requires every person resident in Canada
29 at any time of the year to pay an income tax as required
30 by the terms of the said Act. In Part I, Division B,



1 Section 21 (2) and (3), an exception is made in the case
2 of the married person employed by his or her spouse or
3 by a partnership in which his or her spouse is a
4 partner, by the provision that the remuneration received
5 by such married person shall not be included in his or
6 her income but shall be deemed to have been part of the
7 spouse's income. The National Council of Women submits
8 that this exception is contrary to the general principle
9 of taxation on income which requires that every person
10 should pay an income tax and that it is discriminatory
11 in nature, resulting in many cases in the payment of a
12 greater total tax. * Part I, Division C, Section 26 (2),
13 (a) and (b), should apply in this case as it does to
14 other married persons with income, provided always that
15 the amount of monies paid by the employer spouse to the
16 employee spouse does not exceed that customarily paid
17 for the same type of work.
18

19 11. The present legislation militates against the
20 initiative of husband and wife in setting up small
21 businesses and professional partnerships (See Division B,
22 Section 21 (4)) when the expense of incorporation is
23 not warranted. The contribution made by married women
24 to the economy of our country is undisputed. ** To
25 discriminate against those who wish to work with their
26 husbands is unjustified and inequitable.
27

28 * As an example

29 Under S. 21 (2) and (3) supra



1	Income of employed spouse	\$4,000.
2	Income of employer spouse	10,000.
3		<hr/>
4	Total income	14,000.
5	Exemption	2,000.
6		<hr/>
7	Taxable Income	12,000.
8	Tax	\$ 2,870.

Under S. 26 (2) supra

9	Income of employed spouse	\$ 4,000.
10	Exemption	1,000.
11		<hr/>
12	Taxable income	3,000.
13	Tax	\$ 420.
14		<hr/>
15	Income of employer spouse	\$10,000.
16	Exemption	1,000.
17		<hr/>
18	Taxable income	9,000.
19	Tax	\$ 1,870.

20 Total \$420. plus \$1,870. = \$2,290.

21 i.e. \$580. less than under S. 21.

22 ** Married women (with husbands) constitute 13.14% of the
23 total labour force (February 1963).

25 INCOME TAX EXEMPTION IN RESPECT TO FEES PAID TO SPECIAL
26 SCHOOLS

27 12. The basic right of every child to an education
28 is accepted in Canada and was affirmed categorically at
29 the First Canadian Conference on Education held in



1 Ottawa in 1958. In the case of the retarded child,
2 due to lack of public facilities, this is very often not
3 possible without the expenditure of monies by the
4 parents for special training in special schools. At
5 present, the parents in such cases are not allowed to
6 deduct the amount of the fees from their taxable income.
7 This imposes a hardship on the parents and ~~may~~ preclude
8 the possibility of providing the requisite special
9 training. Not only does this militate against the
10 child, but also it may result in his ultimately becoming
11 a charge on society or a much greater charge than he
12 would have become otherwise.

13
14 13. The principle of special tax exemptions and
15 deductions has been accepted in the Income Tax Act:
16 service pensions, workmen's compensation, contributions
17 to the teachers' fund, tuition fees at post-secondary
18 school level, etc.*

19
20 14. The National Council of Women submits that
21 fees paid to recognized private and independent schools
22 by parents of children so retarded as to be inadmissible
23 to public schools should be deductible from taxable
24 income.

25 * Income Tax Act, Part I, Division B, Section 10, (d)
26 and (g), Section 11, (1) (qa) and (qb), etc.



1 DEDUCTION FOR SERVANT UNDER INCOME TAX ACT

2 15. Under Part I, Division C, Section 26 (4) of the
3 Income Tax Act, an additional deduction for a dependent
4 child is allowed only when a full-time servant is employed.

5 16. Since 1948, when the section was enacted, it has
6 become increasingly difficult to obtain full-time servants.
7 It is, however, often possible to obtain such household
8 assistance on a part-time basis which, combined with the
9 care and supervision of the taxpayer, outside of working
10 hours, would ensure adequate and continuous care of the
11 dependent child.

12 17. Therefore, the National Council of Women submits
13 that the intent of the Act would be unaltered if the
14 section were amended to allow deductions in respect of
15 servants employed on such a regular, part-time basis as
16 to ensure constant supervision and care of the dependent.

17 SALES TAX ON DRUGS

18 18. The National Council of Women is aware that the
19 price of drugs has been under review by the Restrictive
20 Trades Practices Commission in the Matter of an Inquiry
21 under Section 42 of the Combines Investigation Act Relating
22 to the Manufacture, Distribution and Sale of Drugs and it
23 was interested in the findings of that Commission.

24 19. However, whether or not the cost of drugs is
25 reduced as the result of such findings, the Council wishes
26 to protest herewith the principle of a Federal Sales Tax
27 being imposed on drugs. Drugs are necessary to maintain
28 the health of the citizens and thus should be on the same
29 tax basis as food, on which (with the exception of margarine)
30 the Federal Sales Tax is not imposed.



1 SALES TAX ON MARGARINE

2
3 20. The National Council of Women protests the
4 principle of imposing a Federal Sales Tax on any food
5 and therefore respectfully requests the removal of the
6 11% Sales Tax on margarine. The said Tax is unjust to
7 Canadian consumers, particularly to those of lower
8 income, and tends to work against diversification in
9 agriculture.

10
11 IN SUMMARY

12 21. The National Council of Women respectfully
13 submits:

14 1. That the Estate Tax Act should be amended
15 (i) To permit instalment payment of the
16 Estate Tax related to pensions, annuities,
17 etc.;

18 (ii) To provide increased deductions for widows
19 and children.

20 2. That the Income Tax Act should be amended
21 (i) To eliminate double taxation (i.e. Estate
22 plus Income Tax) on widows' Pensions,
23 annuities, etc.:

24 (ii) To eliminate discrimination with respect
25 to payment of Income Tax by one spouse
26 employed by the other spouse;

27 (iii) To allow the deduction in computing
28 taxable income of the fees paid to
29 special schools by parents of retarded
30 children;



1

2 (iv) To allow deductions for part-time
3 servants where deductions for full-
4 time servants permitted under
5 present Act.

6

7 3. That the Federal Sales Tax should not be
8 on

9

10 (i) Drugs
11 (ii) Margarine.

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1 SUBMISSION
2 OF
3 FURMAN CONSTRUCTION CO. LTD.
4 BUILDERS
5 1010 St. Catherine St. E.
6 Montreal, Que.
7 Tel. Avenue 8-9687

8 January 25th, 1963.

9 Mr. Michael Pitfield,
10 Secretary pro tem.,
11 Royal Commission on Taxation,
12 P.O. Box 466,
13 Ottawa, Ontario.

14 Re: File 520-14-33 January 22nd 1963

15 Dear Mr. Pitfield,

16 I wish to apologise for not answering your
17 previous letters sooner, reason: I was in some indeci-
18 sions as to what to do but I will try to explain to you,
19 Mr. Pitfield, what position my business found itself due
20 to interference by Income Tax ruling and regulations
21 and leave to your better judgment to decide if you think
22 that my submission would help the Royal Commission on
23 Taxation to get better picture of the tax situation in
24 our country, than I will be glad to submit my brief
25 (verbal submission would be preferable).

26 Here is the story: I am in the construction
27 and development business since 1934, incorporated under
28 Quebec Charter in 1952, this is strictly a family enter-
29 prise. During all those years business operated under
30 the following principles: all expenses for architecture,



1 engineering, town planning, brokerage fees, etc., were
2 put as current expenses and were approved by the Income
3 Tax Department (latest approval October 1955).

4 In 1956, we have started development of a New
5 Town Site; we had assembled a large track of land, engaged
6 services of town planners, architects and engineers to
7 complete town planning by the end of 1958 and we were
8 planning to start operation in 1959 with services
9 installations and actual construction to start in 1960.
10 Everything was going according to plans till June 1958,
11 when Income Tax Department disallowed all our expenses
12 for the years 1956-57 connected with the new development
13 and ordered us to capitalise it on the new project as
14 future expenses and pay income tax on all taxable income.
15 Financially we were quite capable to carry out this
16 project, we had secured taxable income from other sources,
17 other jobs, balance of sale, etc. Due to this new ruling
18 for 1956-57 we came automatically under this ruling for
19 1958 and after. Our working capital was disturbed, let
20 say taken away from us by Income Tax, throwing out of
21 balance completely the whole project.

22 I have tried to obtain a loan from the chartered
23 banks on a long term basis, banks are not permitted to
24 do so, due to Government regulations; I have tried
25 Industrial Bank of Canada, but was told that our business
26 did not qualify under Government rules. Only resources
27 left, were the private lenders with rates anywhere from
28 18 to 24%, which is impossible. We had to stop further
29 planning due to lack of working capital and the whole
30 project came to dead end and almost to complete



1 liquidation of our business.

2 Effects of this ruling on unemployment:

3 As we were planning to start in 1959, we would
4 had employed directly or indirectly at least 50 men; in
5 1960, we would have had at least 150 men worked directly,
6 and as the statistics tell us, for each man on construc-
7 tion two more are employed in manufacture and supply, so
8 in other words 150 men on the job means 450 men employed
9 and in 1961, it could have been double and so on, so you
10 see, Mr. Pitfield, those 450 men would have been paying
11 Income tax on average let say \$250.00 a year, equal to
12 \$110,000.00, my company would had pay approximately
13 \$15,000.00 to \$20,000.00, equal to \$130,000.00. Now those
14 450 men were drawing unemployment insurance, let say
15 \$100.00 a month on average, each, for 4 months, equal to
16 \$180,000.00 plus \$130,000.00 not earned it means over
17 \$300,000.00 that the Government lost during 1960, may be
18 much more, because each job creates new job, plus
19 complete discouragement of farther initiative on our part.

20 Recommendation:

21 My recommendation would be that Income Tax
22 Department should not disturb any business providing
23 that it is operated honestly; not only Government rules
24 and regulations should be applied but principles and
25 common sense should prevail above all the rules. Govern-
26 ment would gain ten times more in a very near future and
27 would permit unlimited progress in our great country.
28 Therefore, Mr. Pitfield, I will leave the decision to
29 your consideration.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

4

6 P.S. During the years 1956-57 beside expenses for
7 the project my Company still paid Income Tax on average
8 of \$30,000.00 a year.

9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1

2 ROYAL COMMISSION ON TAXATION

3

4 PROPOSALS CONCERNING PERSONAL INCOME TAX

5

6 Submitted by:

7 C. W. R. Vallance,
8 3550 Ridgewood Ave.
9 Montreal 26, P.Q.

10

11 1. This memorandum concerns the regulations relating
12 to personal income tax in Canada. There are proposals
13 regarding Deductions -- one on Medical Expenses, another
14 on Charitable Donations. There is also a proposal on the
15 Standard Deduction which may be taken in lieu of the
16 other two named deductions.

17 2. It is proposed that

18 (a) The Standard Deduction be discontinued,
19 (b) All medical expenses (as presently defined)
20 should be allowable for tax deduction
21 instead of 3% of net income as presently
22 pertains, and
23 (c) Charitable donations should no longer be
24 allowed as a tax deduction (or at least
25 only permitted under strict safeguards
26 against abuse).

27 3. In support of the above proposals it can be
28 said confidently in relation to charitable donations that
29 they have been subject to wide abuses. Further, such
30 abuses are difficult to detect. Additionally it is felt



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

2

1 that it is inappropriate to seek tax relief on account of
2 such donations.

3 4. The conditions attached to claims for tax re-
4 lief on account of medical expenses are such that it is
5 fairly common to find that someone incurring several
6 hundred dollars worth of medical expenses may in the end
7 receive only the same tax relief as someone who has had
8 no medical expenses whatever. For these reasons it is
9 felt that the Standard Deduction should be abolished and
10 that greater relief should be provided for those who do
11 in fact incur medical expenses.

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

ROYAL COMMISSION
ON
TAXATION
HEARINGS
HELD AT
MONTREAL
P. Q.

BRIEFS

VOLUME No.:

8A

DATE:

April 25, 1963

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
BOARD OF TRADE BLDG.
11 ADELAIDE ST. W.
TORONTO

364-5865 364-7383



ANGUS, STONEHOUSE & CO. LTD
TORONTO ONTARIO

1

2 ROYAL COMMISSION ON TAXATION

3

4

5

6 BRIEF

7

8 presented by

9 LA FÉDÉRATION DE QUÉBEC DES UNIONS RÉGIONALES

10

11 des

12

13 CAISSES POPULAIRES DES JARDINS

14

15

16

17

18 MARCH 1963 (en français au verso)

19

20

21

22

23

24

25

26

27

28

29

30

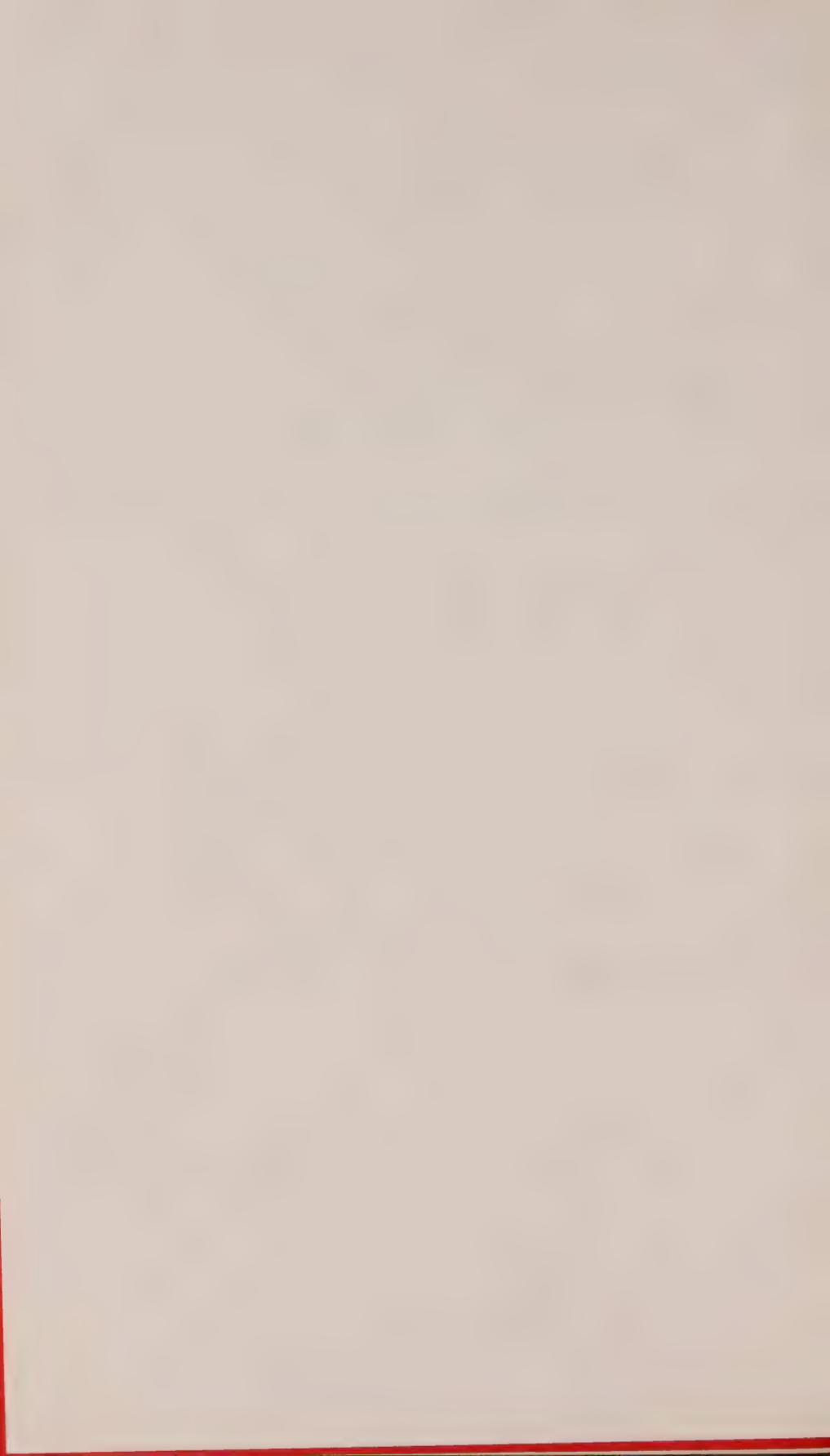






TABLE OF CONTENTS

<u>Page</u>		<u>Paragraphs</u>
	I - GENERAL PRINCIPLES	
1	Introduction	1 - 21
8	Caisse populaires provide economic education for the families	22 - 24
10	Non-profit democratic institutions	25 - 28
11	Equitable distribution of the operating surplus to the members and limitation of interest on their capital	29 - 33
12	Operations based on going rates on the market	34 - 37
16	Administration without remuneration	48 - 50
17	Setting aside of an indivisible reserve	51 - 55
	II - INSTITUTIONS USEFUL TO THE PUBLIC	
18	Financial help from the State	56 - 58
19	Annual dues	59
19	Areas where banking services are non-existent	60 - 63
20	The promotion of savings	64
21	School Caisse	65 - 66
21	Professional and administrative education	67 - 68
22	Education and publicity	69 - 71
22	Complementary and information courses	72 - 73



Table of Contents (Continued)

II - Institutions Useful to the Public

<u>Page</u>		<u>Paragraphs</u>
23	The Desjardins Institute	74 - 75
23	Educational programs on television and radio	76 - 78
24	Fight against usury	79 - 85
25	Other services being rendered without compensation to the Federal and Provincial governments	86 - 87
	III - <u>CONCLUSIONS</u>	
26		88 - 96



1
2 I - GENERAL PRINCIPLES
3

4 Introduction
5

6 1. In the early part of this century the average
7 working man decided to organize his own system of savings
8 and credit. Victim as he was of usurious practices in
9 the field of credit, he soon realized that the principle
10 of self help was the only logical way to develop a credit
11 system which would help him satisfy his essential
12 economic needs and at the same time participate in the
13 economic progress of the country.

14 2. The Caisses populaires, by their contribution
15 to the general well-being of the families and to the
16 national economic prosperity, are a help to the State in
17 so far as it permits it to widen its fiscal possibilities
18 while relieving the State from the considerable expenses
19 it would have to carry in order to assist the working
20 classes in meeting their essential needs were they not
21 assuming the responsibility of organizing and operating
22 institutions by which they can satisfy those needs while
23 actively participating in the development of the national
24 economy.

25 3. It is therefore the purpose of this brief to
26 respectfully remind your Commission on Taxation in Canada
27 that the Caisses populaires Desjardins do in fact
28 contribute to the fiscal revenues of the State by widen-
29 ing its field of taxation due to the economic progress
30 which they bring about and that they also relieve the
State from monetary obligations through the efficient



1 fulfillment of economic functions without requiring
2 financial assistance from the State.

3 4. The Caisses populaires Desjardins are savings and
4 loans co-operatives. They are associations of small
5 savers who, from their accumulated savings, make loans
6 to each other in order to meet their essential economic
7 needs.

8 5. People with modest means turn to co-operation
9 in order to create for themselves a source of credit
10 based on mutual understanding and supported by their own
11 small savings. They capitalize their honesty, their
12 initiative, their love for work and their desire to help
13 each other in order to create a source of funds which
14 permits them to establish and operate small economic
15 enterprises and improve their economic and social standard
16 of life. "Neither the bank, nor the loan company," said
17 the founder of the first Caisse populaire in his testi-
18 mony before the Committee of the House of Commons
19 established in 1907 to study a proposed law of co-
20 operative and industrial societies, "pretend they can
21 answer the credit needs of the working man as he has no
22 other security to offer, as a guarantee for payment,
23 than his honesty and his willingness to repay".

24 6. It is the honesty of the average man and "his
25 willingness to repay" which have made possible the
26 establishment in Quebec of these decentralized co-oper-
27 atives for savings and for loans, called "Caisses populaires"
28 where, as Mr. Alphonse Desjardins said in his booklet
29 on Caisses populaires (1911), "the honest, laborious,
30 and thrifty workers and farmers can get the funds they



1 require to support their activities, build their home,
2 free themselves from burdening debts and purchase their
3 necessary needs on a cash basis."

4 7. Under the able and stimulating guidance of
5 Alphonse Desjardins, official reporter for Hansard in
6 Ottawa, the working classes, conscious that the usurious
7 practices to which they were subjected by the small
8 private lenders were the results of a lack of a credit
9 system adopted to their needs, started to build for
10 themselves their savings and credit institutions. They
11 built them according to co-operative principles where
12 they would be the users and beneficiaries of these savings
13 and loans institutions and where the needed capital,
14 which is the result of their small accumulated savings,
15 would play the role of a good servant receiving a limited
16 compensation. These savings and loans institutions so
17 organized by and for the people are the Caisse populaires,
18 to which the name "Desjardins" has been added in order
19 to perpetuate the memory of their founder Alphonse
20 Desjardins. Through these Caisse populaires the average
21 man knows how to solve his economic problems by himself.
22 In his booklet on Caisse populaires, Alphonse Desjardins
23 wrote: "The only way for people to run their own affairs
24 without having to be indebted to anyone, is to group
25 themselves in associations and take the advantages as well
26 as the responsibilities which are inherent in a full
27 control and a full participation in the economic life
28 which is an indispensable corollary to the civic and
29 political progress which we enjoy. Alter all -- and this
30 is the essence of the system -- it is the people



1 themselves who make their own economic affairs. Today,
2 instead of being governed, as people were two or three
3 hundred years ago by an all powerful king who presented
4 himself as heaven-sent, we govern ourselves and decide
5 on matters touching the political life through legislators
6 which we freely elect. Why should it not be possible to
7 have a system which is just as free with regard to the
8 economic life? Our business system is far from being a
9 true democracy. Our political system is basically
10 democratic but as soon as you venture into the financial
11 and economic world, you soon realize that it is governed
12 by the aristocrats and the wealthy."

13. Besides forming citizens which are imbued with
14 a sense of economic solidarity and self help, savings
15 and loans co-operatives also help them develop the habit
16 of thrift, while satisfying the credit needs of people on
17 a decentralized basis which is efficient and low in cost.
18 This is indeed the first step which must be taken by the
19 people in order that they may organize their economic
20 life satisfactorily and move ahead on the way to economic
21 prosperity and social progress.

22. Caisse populaires devote themselves to this
23 economic education of the average working man. They are
24 a dynamic factor in the economic progress of the people.
25 Alphonse Desjardins expressed his conviction in this
26 regard in a brief on agriculture in Quebec, in which he
27 said, "We have no hesitation to say that we would like to
28 see the Caisse populaire, that is to say this association
29 of modest local capital funds, become the centre of
30 activity, the generating force of this movement (....).



1 One of the most efficient means to succeed is to assure
2 the powerful assistance of credit by organizing a Caisse
3 populaire which will serve as a pool for local savings
4 which, in turn, will serve to make productive loans for
5 individual or group initiatives which this renovating
6 movement will have brought about."

7 10. Popular credit, in our trading economy which
8 requires much capital, must be supported by popular
9 savings; more than this, it must encourage the development
10 of popular credit, as it is the habit of saving which
11 provides people an apprenticeship in the use of credit.
12 Credit to be efficient and popular must, in our modern
13 economy, find its source of supply among the people; it
14 must be controlled by the users themselves who will assure
15 its proper administration and its judicious distribution
16 at a low cost in order that it may be truly popular in
17 its purpose which is to efficiently satisfy the credit
18 needs of the working men.

19 11. The experience of the Mutual Credit institutions
20 of Europe had convinced Alphonse Desjardins that co-
21 operative principles had to be the basis of an efficient
22 system of popular credit, because co-operation, besides
23 calling for personal efforts, individual initiative, and
24 a sense of foresight on the part of those using credit,
25 multiplies their individual forces by co-ordinating them
26 so as to permit people to solve their common problems by
27 themselves.

28 12. This is why the co-operative for popular credit
29 is first of all a savings institution. An institution
30 which teaches the average working man a sense of foresight.



1 a sense of thrift, the habit of small savings in order
2 that they will be able to develop by themselves, through
3 their own savings, their own credit institutions. In
4 this way the average working men will build and administer
5 the necessary institutions aimed at satisfying their
6 essential economic needs and become an important factor
7 in the economic progress of the nation without having to
8 count on the help of the State. Is it possible to
9 satisfactorily organize the economy of a nation without,
10 first of all, developing among the people a sense of fore-
11 sight and of thrift, and without gathering for proper use
12 the small savings which will result from the practice of
13 foresight and thrift among the people? "As for savings",
14 wrote Alphonse Desjardins on October 18, 1900, in a
15 letter to Charles Rayneri, director of the French
16 Federation for popular credit, "I wish our societies to
17 be real schools which will teach the practice of this
18 social virtue and to this end we will accept deposits
19 which could be as small as five cents."

20 13. In the earlier part of the century, people had
21 very little money and did not have the habit of saving.
22 In his brief to study a proposed law concerning co-
23 operatives and industrial societies, Alphonse Desjardins
24 stated: "The average man does not think that he should
25 save because, he argues, it is not worthwhile to put any
26 money aside." Further in his brief on the organization
27 of agriculture in Quebec he speaks about the "contempt
28 for savings" and of "loath towards small savings" which
29 exists among people comparing it to a "national vice",
30 "a source of individual and collective misery and



1 suffering which brings about a general undesirable
2 situation which keeps our populations in a deplorable
3 economic dependance."

4 14. Education towards thrift and savings this is
5 the first task with which Alphonse Desjardins entrusted
6 the Caisse populaire. It must gather all of the savings,
7 and use them as an economic power.

8 15. Man is intelligent and able to plan, but he is
9 not naturally inclined towards savings. That is why
10 people are in need of protection, as they are more in-
11 clined towards spending their money than saving it.
12 The Caisse populaire provides such a protection. It
13 encourages savings, constantly insists on its necessity,
14 facilitates savings deposits; at the Caisse populaire,
15 savings is made easy for all. All small savings must
16 be gathered otherwise they face the danger of being
17 wasted. The Caisse populaire tries to salvage all small
18 savings, which are the result of work. In addition to
19 making savings deposits easy, the Caisses populaires
20 Desjardins assure their security and a wise use of them.
21 This is one of the basic rule which they observe so that
22 they may be true to their first purpose which is to be a
23 savings co-operative.

24 16. The thinking of the founder of the Caisses
25 populaires in this regard, is well expressed in a speech
26 which he made in Quebec, in 1908, at a meeting of young
27 people: "But, will they say, why should we have these
28 savings institutions, do we not have banks which through
29 their branches go everywhere to gather the savings?
30 First of all, banks are not created to help the masses



1 or to bring social solution to an economic problem. They
2 were never intended for that purpose, and it is a bless-
3 ing, as they are not geared for such a mission. They
4 would therefore fail in such a task while at the same time
5 failing to be profitable to their shareholders which is
6 the main reason for their creation. Let each organization
7 pursue the aim for which it was set up and designed, and
8 things will, in this way, be better.

9 17. Secondly, can it be said that banks go every-
10 where? Without taking into consideration the economic
11 danger brought about by this perpetual drainage of local
12 savings to the sole advantage of large centers and at the
13 same time to the sole advantage of a certain group, is it
14 not true that -- regardless of the disturbing multiplicity
15 of bank branches during the past few years -- the great
16 majority of our parishes are without these savings
17 reservoirs? And the reason for this situation is easy
18 to explain, a bank is set up for the sole advantage of
19 its shareholders, not as a social institution which wants
20 to help without assurances or hopes of healthy profits.
21 What it wants are profits which will increase the year
22 end dividend. There lies the naked truth. So there are
23 a large group of parishes where a sub-agency or a bank
24 branch would be unprofitable and bring no profits.
25 Banks therefore do not provide services in these parishes.
26 Should we be astonished by this situation or deplore it?
27 Far from regretting it we have all the reasons to be
28 pleased with it, if such a situation will have as a
29 result an awakening of local initiatives which will bring
about the creation of an institution which will be of



1 much more help and much more in accordance with the needs
2 of our parishes, an institution which is known as the
3 Caisse populaire.

4 18. Finally, banks do not provide credit to the
5 average working man. They lend money to a group of
6 customers which are primarily recruited among the large
7 industrial and trade organizations (...). Without being
8 too concerned with the fate of the banks, knowing that
9 they can take care of themselves, we can state that the
10 multiplication of Caisses populaires would be to their
11 advantage as they would increase the amount of savings
12 and in so doing, the total wealth of the country. This,
13 in turn, would increase the economic activities and be
14 profitable for the large banks. This is what has
15 happened elsewhere. Why should it not bring about the
16 similar results here? Since when elementary schools are
17 harmful to universities? Is it not necessary to learn
18 how to read and write before entering these places of
19 higher education? And so it is with the Caisse populaire,
20 it is the elementary school of economics. Whatever we
21 do, the large bank will never bother to gather the
22 "penny", because of its luxurious organization and its
23 higher paid personnel, this would be too costly. The
24 Caisse populaire on the other hand will be able to do it
25 easily, first because it is its duty and then because its
26 operations are based on a devotion to a social cause."

27 19. The objective pursued by the Caisses populaires
28 through their general policy on credit granting and loan
29 repayments by small regular instalments does not differ
30 from that other objective which they wish to reach as



1 savings co-operatives. The loan service of the Caisse
2 populaire Desjardins is motivated by the same principle
3 and pursues the same objective as the savings service:
4 to better the social and economic life of its members.
5 This is always attained in one way or the other through
6 the practice of foresight, thrift, and regular savings.
7 Borrowers are urged and encouraged to practice foresight
8 and thrift through regular small repayments on their loans
9 which demand that they put aside small savings for that
10 purpose and by so doing better their economic and social
11 life. This is the reason why the credit committee of the
12 Caisse populaire must know the purpose for which the loan
13 is required so that it will be assured that the loans are
14 advantageous and helpful to the borrowers. This is also
15 why the credit committee insists that the borrowers agree
16 to make regular small repayments on their loans in order
17 to encourage them to administer their affairs in an
18 orderly way and practice foresight, restrain and thrift,
19 and by such sustained efforts to organize their affairs
20 and way of life so that they can realize the savings which
21 will permit them to better their economic and social life.
22 This is the type of economic and social education per-
23 formed by members of the credit committee of a Caisse
24 populaire, who performs its duties according to the
25 principles laid down by the founder who wanted his Caisse
26 populaire to be a practical school of economic and social
27 education for the population of our parishes.

28 20. The wise use of credit requires on the part of
29 borrowers moral qualities and a certain amount of pro-
30 fessional aptitudes. Members, in order to borrow from



1 their Caisse populaire, must have a certain number of
2 qualities which will be in their favour at the Caisse
3 populaire. They must first of all be members which means
4 according to the rules (art. 7) that they must be "honest,
5 ready to meet their obligations, thrifty and industrious."
6 The members of the credit committee, when examining a
7 loan demand, will first of all consider the moral security
8 of the borrower, then his ability to repay. Honesty is
9 the greatest wealth. It is the first consideration. To
10 use one of the expression of Mr. Luzzati, founder of the
11 co-operative banks in Italy, Caisse populaires "capita-
12 lize honesty. This is the essence of their credit policy.
13 Caisse populaires first take into consideration the moral
14 value and the professional aptitudes or qualities of their
15 members in need of borrowing and then ascertain their
16 financial situation. They also ascertain that loans will
17 be used for provident and productive purposes and that
18 repayments will be made according to conditions laid down
19 by the borrowers and acceptable to the credit committee.

20. These are as many requirements which demonstrate
21 that Caisse populaires are truly schools for the economic
22 and social education of the average working man and that
23 their main objective is to help people of modest means
24 to help themselves to better their economic situation and
25 become an important factor in the development of the
26 Canadian economy as a whole.

27
28 Caisse populaires provide economic education for the
29 families.

30



1 22. Caisse populaires, as we have already pointed
2 out, are in the parishes, schools which teach foresight,
3 thrift, regular savings and the wise use of credit.

4 23. They try to protect the savings which they re-
5 ceive and see that they are well used. They also have as
6 an objective to bring about a better administration of
7 the family budget. When families of the same parish
8 associate themselves in a Caisse populaire, their aim is
9 to help each other. This mutual self help cannot be
10 limited to the safekeeping and wise use of their savings;
11 it also extends to family financial counselling. The
12 objectives being pursued by a Caisse populaire obviously
13 require this extension of services. Savings are not
14 growing at a rate which is sufficient to meet the invest-
15 ment needs of our young country. In addition to this,
16 and despite or because of higher revenues and salaries
17 enjoyed by Canadians, consumer debts have, since the last
18 war, taken considerable proportions which are cause for
19 concern. Living conditions, aspirations and needs of our
20 families have under the pressure of industrialization and
21 urbanization undergone deep transformations.

22 24. La Fédération de Québec des Unions régionales
23 des Caisse populaires Desjardins and the Desjardins
24 Mutual Life Assurance Company have for sometime been
25 conscious of their responsibilities in that regard and in
26 order that the Caisse populaires movement be well informed
27 on the present living conditions and needs of our families
28 in Quebec, these two organizations, in 1957, charged the
29 Social Research Department of Laval University with the
30 responsibility of conducting a scientific survey on the



1 living conditions, aspirations and needs of the salaried
2 and wage earning families of the province of Quebec.
3 Such a survey has supplied us with enormous data and
4 information on the various factors which motivate and
5 condition family decisions with regard to savings and the
6 use of credit to meet their consumer needs. This survey
7 has informed us on the living standard, the aspirations
8 and the needs of the families, it has provided the leaders
9 of our Caisses populaires with facts which will permit
10 them to establish sound policies concerning savings and
11 credit, and recommend ways and means which will help
12 families to better administer their revenues, make a more
13 discriminate and wise use of credit and build reserves
14 for the future.

15

16 Non-profit democratic institutions

17

18 25. As any other co-operative, the Caisse populaire
19 contains two essential elements: 1) It is an association
20 of people; b) It is an economic institution. From these
21 two elements, two basic rules are established: a) the
22 rule of the equality of the members with regard to their
23 mutual relations within their Caisse populaire, b) the
24 rule of equity with regard to the institution itself and
25 the distribution of its operating surpluses among its
26 members.

27

28 26. The rule of the equality of the members requires
29 the application of two co-operative principles: 1) One
30 member, one vote -- all members are equal when it comes
to the control and administration of their Caisse populaire;



1 2) all people it intends to serve are equally free to
2 be or not to be members of the Caisse populaire.
3 27. Caisse populaires are associations of people,
4 they are not associations of capital funds or shareholding
5 companies as are the banks or finance companies. In a
6 Caisse populaire the voting power is attached to the
7 person; in the bank the voting power is attached to the
8 shares, the money. Members of a Caisse populaire take
9 their decisions at annual meetings or special meeting on
10 the principle of one member, one vote, and not on the
11 basis in use in capitalistic societies where each share-
12 holder has as many votes as he has shares. Shareholders
13 of a bank based on the capitalistic principle who own
14 or through proxies control more than 50% of the shares
15 can effectively control the organization, take adminis-
16 trative decisions and determine the amount and the way
17 profits are distributed to shareholders.

18 28. Members of a Caisse populaire are, at the same
19 time the owners, users, and beneficiaries of their
20 organization. They entrust it with the administration
21 of their savings, borrow from it when in need of money.
22 They choose, among themselves and in accordance with the
23 social rule of one member, one vote, the members of the
24 three boards or committees which administer their Caisse
25 populaire, make them loans and supervise its operations.
26 The mutual relations among the members are therefore
27 developed and based on social equality which guarantees
28 the co-operative principle: One member, one vote.



1 Equitable distribution of the operating surplus to the
2 members and limitation of interest on their capital

4 29. The Caisse populaire Desjardins is the integration of two forms of co-operatives: the savings co-operative and the credit co-operative.

7 30. It is therefore important to keep in mind this double characteristic of the Caisse populaire in order to understand how the co-operative principle of distributing surplus to members is applied. It is done in proportion of the business done by the members with their Caisse popular.

13 31. The rule of equity which regulates the economic relations of the Caisse populaire with its members requires the application of two co-operative principles whereby surpluses of operations are paid back to the members in relation to their volume of transactions with their Caisse populaire: 1) a limitation of the interest paid on capital; 2) a return of the surpluses to the members in proportion to the transactions they have made with their Caisse populaire and not in accordance with capital invested in their Caisse populaire.

23 32. The Caisse populaire pays a limited interest on its share capital (capital social). This interest is slightly higher than that paid on savings, because the members' financial responsibility is in relation to their social shares; in this way social capital involves a certain risk which does not exist as far as savings are concerned. It must also be noted that the member has to pay an "entrance fee" on each share and that the



1 shares do not fluctuate in value even if through increases
2 in the affairs of the society and efficient management,
3 a increase in their value would be warranted. This
4 entrance fee is a direct contribution to the reserve fund
5 of the Caisse populaire. The member will never receive
6 it back. That is why the Caisse populaire pays to its
7 members a slightly higher interest on social share
8 capital. This interest on social share capital is called
9 a "boni" (a bonus) in order to distinguish it from
10 ordinary interest on savings. It is not the dividend
11 which in a bank represents the distribution of the profits
12 among shareholders in proportion to shares held. If
13 this "boni" or bonus was similar to the dividend, it
14 would, as dividend do, increase as net profits increase;
15 the higher the profits the higher the dividend. But
16 this is not the case in a Caisse populaire. The Caisse
17 populaire Desjardins limits the interest on the social
18 capital, treats it as a good servant and pays it a
19 reasonable compensation.

20 33. The Caisse populaire pays to its depositing
21 members a reasonable interest on savings, (at the rate
22 which is usually paid in the other savings institutions)
23 and charges a slightly higher rate to its borrowing
24 members. The margin which so exists between the interest
25 received from loans and investments and the interest
26 paid on savings is established so as to pay for adminis-
27 trative expenses, create necessary reserves, cover
28 possible losses and pay a reasonable interest on the
29 social capital of the members.



1 Operations based on going rates on the market

2

3 34. This co-operative principle of operation con-
4 cerns competition. The members do not have to enter
5 into competition with other financial organizations by
6 offering or charging interest rates which are higher or
7 lower than the going rates on the market.

8 35. Figures reported on page 114 of our brief to
9 the Royal Commission on Banking and Finance show that
10 as at December 31st, 1961, 1105 Caisses populaires out
11 of a total number of 1212 had paid interest on capital
12 at rates ranging from 3% to 5%. The mode and median was
13 4%, the arithmetic mean 4.06% while the average weighted
14 by the amount of social capital at December 31st, 1961,
15 was 4.90%.

16 36. On page 110 of the same brief, we find that
17 1149 Caisses populaires out of the 1212 in operation on
18 December 31st, 1961, paid rates ranging from 2% to 3.49%
19 on savings; 635 Caisses populaires paid between 3% and
20 3.49% which means that the majority of them were paying
21 3% which is the rate paid by banks. The mode and median
22 was 3%, the arithmetic mean 2.72% and the average weighted
23 by the savings as at December 31st, 1961, was 2.96%.

24 37. As far as rates of interest on loans, figures
25 stated on page 103 of the same brief show that 1126
26 Caisses populaires out of the 1212 were, as at December
27 31st, 1961, charging between 6% and 7.49% on personal
28 loans. The mode and median was 7%, the arithmetic mean
29 6.63% and the average weighted by the outstanding loans
30 at December 31st, 1961, was 6.75%; 812 Caisses populaires



1 out of 1212 were charging rates ranging between 6% and
2 6.99% for mortgage loans. The mode and median was 6%,
3 the arithmetic mean 5.57% and the average weighted by
4 the loans outstanding as at December 31st, 1961, was
5 6.32%.

6 38. Interest on loans is always calculated on the
7 balance due, the rates of interest mentioned above are
8 therefore true rates of interest. A Caisse populaire
9 never charges interest on the original amount of a loan
10 for the whole period of the loan as certain institutions
11 do, which in such a case increases the true interest rate
12 being charged considerably. Moreover Caisses populaires
13 never charge administration fees on loans or a minimum
14 interest charge even though the actual interest due in
15 some cases may not exceed 10 cents or 20 cents.

16 39. We may explain the success which Caisses
17 populaires enjoy as follows:

18
19 a) Decentralization-

20 - Each Caisse populaire is an autonomous organization.
21 It receives the savings of its members in the parish
22 and lends them to the same members. Local funds are
23 thus used locally in order to increase the prosperity
24 and well-being of the local area.

25 b) Services -

26 - The fact that the member is one of the owners of
27 the organization, being served by someone from his
28 parish who knows his problems; the quality of the
29 services being rendered; all these are factors which
30 are attractive to the member and encourages him to



1 deposit his savings at his Caisse populaire and to
2 borrow from it.

3 40. Caisse populaires do not practice a trading
4 business of money; they do not operate for the benefit
5 of a few members by using the savings of the general
6 public. Only members can deposit their savings in their
7 Caisse populaire and only members may borrow. Members
8 put their savings in a common pool to use them, not to
9 permit a small group among them to make profits with the
10 money deposited by the others. Caisse populaires do
11 not borrow money and do not receive deposits from persons
12 who are not members in order to lend that money for
13 profits.

14 41. Banks, on the contrary, accept deposits from
15 all and lend to those whom are deemed to offer the best
16 possible chances of making a profit; they receive savings
17 deposits from the public and lend them at a higher rate
18 of interest with the aim of making a profit. Their
19 shareholders then share these profits in proportion to
20 the number of shares they individually own in the banks.
21 As the term "dividend" well indicates the shareholders share
22 the profits in relation to the shares they own, without
23 taking into consideration that the shares increase in
24 value as the business progresses which also means a
25 profit for the shareholders. In addition to receiving
26 a dividend the shareholder eventually realizes a capital
27 gain.

28 42. Caisse populaires cannot know in advance the
29 exact amount of the total of their administrative
30 expenses or the precise amount of interest they will have



1 to pay on their share capital and savings as both are of
2 a fluctuating nature. They set an interest rate on loans
3 which will, as far as it can be ascertained, bring in an
4 income which will exceed the total amount of expenses and
5 interest they will have to pay, and provide for necessary
6 reserves. If at the year end there exists a surplus
7 after paying a reasonable interest on the social share
8 capital, the Caisse populaire will return to its borrowers
9 that part of the overcharge of interest on loans which
10 that net surplus represents. This interest refund of the
11 net surplus brings back its lending operations to a "cost
12 basis".

13 43. This interest refund necessarily varies
14 according to the amount of interest which has been over-
15 paid on the loans secured from the Caisse populaire by
16 its borrowing members. The larger the loan, the larger
17 the total amount of interest paid, and therefore the
18 larger the interest refund to the borrowers. This is
19 what we term the principle of refunding the net surplus
20 in accordance with the basic rule of equity which returns
21 to each member what is due to him; it is the distribu-
22 tion of the net surpluses in proportion to the business
23 transacted by the borrowing members at their Caisse
24 populaire.

25 44. In dealing with this matter of the net surpluses
26 of the Caisse populaire, Mr. Desjardins wrote in his
27 booklet on Caisse populaires, "The Caisse populaires
28 have adopted as a basic rule to treat both the savings
29 members and the borrowing members with equal justice."
30 So, on the one hand, each time the interest (boni) on



1 capital social is increased, the conditions offered to
2 borrowing members are improved on the other. This is
3 putting into practice the co-operative principle which
4 governs these savings and loan societies. This, you will
5 argue, is a new principle in such matters, but this
6 principle is acceptable because it is based on the well
7 understood rule of equity and solidarity. We must also
8 keep in mind that the borrowers also benefit from an
9 increase of interest on social share capital as they are
10 members and as such own social shares which benefit from
11 the increase. It therefore follows that all members are
12 doubly interested in the welfare of the Caisse populaire
13 (as savers and as possible borrowers) because of the
14 advantages they can all receive.

15 45. Mr. Desjardins wished his Caisse populaire to
16 give each member what was due to him, treating with equal
17 justice the depositors and the borrowers: the first
18 receiving a reasonable interest and the second benefitting
19 from a lower cost of borrowing by reducing it through an
20 interest refund when net operating surpluses existed.

21 46. Caisses populaires follow this principle of
22 justice for all their members. Article 46 of their
23 general rules provide for this principle of treating all
24 members with "equal justice" when distributing the net
25 surplus as follows: "Any increase in the rate of
interest paid on shares (boni) is followed by an equal
improvement in the lending conditions offered to members
either as a reduction in the interest rate charged on
loans or otherwise."



1 47. It is possible that at the year end the Caisse
2 populaire will have no surplus to distribute, once
3 interest on savings and expenses have been paid, the legal
4 reserves have been set aside and a reasonable interest
5 has been paid on the social shares. In such a case the
6 Caisse populaire does not have to pay an interest refund
7 to the borrowers. As an organization which operates on
8 a non-profit basis it has already operated on a cost
9 basis.

10

11 Administration without remuneration

12

13 48. The Caisse populaire is an organization for
14 people with modest means. Its operating cost is kept at
15 a minimum in order that it will cost as little as
16 possible to the members it wished to help. This is why
17 its founder has required that its administration be on a
18 free and voluntary basis. The manager and the employees
19 of the Caisse populaire are the only ones who can receive
20 a remuneration. So there are no attendance fees or
21 commission paid to the administrators and leaders of a
22 Caisse populaire, their services must be given absolutely
23 free. The law governing the Caisses populaires in Quebec
24 in fact states: "The services of the members of the
25 boards of management, of the board of supervision and
26 of the committee of credit shall be gratuitous. The
27 manager may be paid for his services."

28 49. This form of voluntary and free administration
29 of a Caisse populaire is facilitated by the fact that
30 its activities are confined to the parishes where members



1 know each other. "All of the productive and provident
2 activities of the Caisse populaire are essentially of a
3 co-operative nature and therefore restricted to the
4 members." and the law further states that "these activi-
5 ties are not to be taken as constituting a commercial
6 venture, a financial institution or a way to make a
7 profit."

8 50. The Caisse populaire, as a general rule, can
9 only accept as members people who live in its territorial
10 boundaries which is the parish. Only members can
11 participate in the operations of their Caisse populaire,
12 only members may deposit their savings and only members
13 may borrow from it. This co-operative character of
14 Caisses populaires Desjardins which is approved by the
15 law has on the other hand been recognized by the federal
16 authorities on taxation. When the income tax law was
17 amended in 1931 to exempt Caisses populaires from income
18 taxes, the Honorable Euler, then Minister of National
19 Revenue, declared, "The members of those organizations
20 (Caisses populaires and Credit Unions) contribute their
21 money for one purpose only; that those moneys shall
22 again be loaned to the members themselves. It is entirely
23 a co-operative institution." The material advantage
24 which results is to lower operating cost at a strict
25 minimum. Depositors and borrowers benefit from it
26 because of this economy in administrative cost, members
27 can benefit of interest rates which are most favorable.

28

29

30



Setting aside of an indivisible reserve

51. Caisse populaires accumulate, from their annual net income, reserves for the purpose of protection against possible losses in their operations and to be in a position to render greater services to their members.

52. The economical administration of Caisse populaires, which is the result of uncomplicated and inexpensive operations due to a decentralization which operates at the level of the needs of the members, the voluntary and free administration, the direct contribution made by the members who pay an entrance fee on each social share which fee goes to the reserve fund; these are as many reasons which have permitted Caisse populaires to gradually build up necessary reserves to protect the savings of their members against possible losses and assure the administrative security of their Caisse populaires. These reserves belong to each individual Caisse populaire as such and can never be distributed to the members. In case of dissolution of the Caisse populaire, the balance of its realized assets and that includes the reserves which remains with the Caisse populaire, is distributed or used in the territorial area of the Caisse populaire for general welfare purposes as assigned by the Lieutenant-Governor-in-Council.

53. Such a legal requirement prevents any attempt by the members to distribute and share the reserves of the Caisse populaire and shows that the Caisse populaire does not look for profits but aims at the mutual service of the members.



1 54. Such reserves help develop a great amount of
2 confidence towards the Caisses populaires by the depositing
3 members because they can see that such reserves protect
4 their savings against possible losses and permits the
5 Caisse populaire to provide greater services in a better
6 way.

7 55. Caisses populaires attempt to provide their
8 members, at the lowest possible cost, with certain econom-
9 ic services which they need to attain a certain degree of
10 well-being and move along in the way to economic prosperity
11 and social progress. Caisses populaires have therefore
12 been publicly recognized as useful organizations and
13 institutions which it would be imperative to establish
14 and develop in the interest of the nation were they not
15 already existing.

16

17 II - INSTITUTIONS USEFUL TO THE PUBLIC

18

19 Financial help from the State

20

21 56. The Federal Government has never been called
22 upon to spend any money in any way to help supervise or
23 control Caisses populaires which by the way come under
24 provincial jurisdiction.

25 57. The same thing can be said about the Quebec
26 Government except for an annual grant of \$90,000. which
27 is paid to La Federation de Quebec des Unions regionales
28 des Caisses populaires Desjardins to help it bring finan-
29 cial services to areas which would otherwise be without
30 them.



1 58. Caisse populaires have developed and organized
2 on their own the professional leaders which they needed
3 and they defray their cost.
4

5 Annual dues

6 59. Caisse populaires therefore pay annual dues to
7 permit their regional unions and their provincial federations
8 to organize and keep a central office and maintain
9 such services as education, inspection and audit, analysis
10 of investments, research and miscellaneous information.
11 This, during the fiscal year 1961-62 required the
12 affiliated Caisse populaires to pay \$1,398,305.23 in
13 membership dues which were used as follows:

14	Security Fund:	\$ 122,297.00
15	For technical services provided	
16	by the regional unions:	\$ 479,662.42
17	La Fédération de Québec des	
18	Unions régionales des Caisse	
19	populaires Desjardins:	\$ 796,345.81

20

21 Areas where banking services are non-existent

22 60. Despite this lack of financial contribution by
23 the Federal Government and the small grant provided by
24 Quebec, 668 of our 1254 affiliated Caisse populaires are
25 established in localities where no bank branches exist.
26 In these 668 localities there exist 68 banks agencies and
27 129 sub-agencies, which means areas so organized by the
28 banks in order to gather the deposits of the population
29 but without the regular lending services which are
30 generally, if not exclusively, reserved to the bank



1 branches. There were therefore 471 Caisses populaires es-
2 tablished where bank services were completely non-existent.

3 61. A good number of Caisses populaires have been
4 established and operate in far away localities which are
5 even difficult to reach. The following will serve as an
6 example:

7	Number	Localities	Other local-	
8	of	where there	ties where	
9	Caisses	is a bank	there is an	
10	Popu-	branch	agency or a	
11	Regions	laires	sub-agency	
12	_____	_____	_____	
13			<u>of a bank</u>	
13	Union régionale de			
14	l'Ouest-Québécois			
15	(East-Abitibi, West-			
16	Abitibi, Rouyn Noranda).	38	5	2
17	Union régionale de Gaspé			
18	a) Magdelene Islands	7	0	1
19	b) North Gaspé, South			
20	Gaspe, Bonaventure.	40	7	5
21	North Shore (Eastward			
22	from Seven Islands, 500			
23	miles north of Quebec			
24	City)	8	1	0
25		93	13	8
26		==	==	==

26 62. A Caisse populaire has even been established
27 among the Eskimos at Powungnetuk, on the north east shore
28 of the Hudson Bay.

29 63. The organization of Caisses populaires for the
30



1 benefit of these populations which have been neglected by
2 capitalistic enterprises which see no possible profit in
3 rendering services there or exploit them when they do, is
4 an uncalculable contribution which relieves the State
5 from a heavy financial burden. The Caisses populaires
6 movement alone has borne all the necessary expenses to
7 give these populations a democratic way to accumulate
8 savings and use them locally for productive and provident
9 loans.

10

11 The promotion of savings

12

13 64. Caisses populaires have organized and maintained
14 an efficient savings service which has brought about since
15 1901 an accumulation of a considerable amount of savings;
16 the total amount of savings in our affiliated Caisses
17 populaires now exceeds \$750,000,000. These are the
18 results of years of popular promotion and education by
19 various means.

20

21 School Caisses

22

23 65. As soon as the first Caisse populaire was
24 established in Levis, Mr. Desjardins started to promote
25 the savings of pennies in schools. Caisses populaires
26 have continued in this tradition of encouraging small
27 savings with worthwhile results. Over the years school
28 Caisses populaires have changed in concept but their
29 principle has never changed: to encourage and teach
30 school children to practice thrift and the savings habits.



1 66. As at December 31, 1962, there were 368,240
2 school children participating in these Caisses and they
3 had accumulated savings of \$7,245,000. Some 650 Caisses
4 populaires in the province sponsor school Caisses popu-
5 laires in close to 2,000 schools.

6

7 Professional and administrative education

8

9 67. One of the aims pursued by the Caisse populaire
10 is to "spread among its members the knowledge and
11 practical application of the elementary principle of
12 economic science." By teaching the members the habit of
13 savings, we help them understand the value of money and
14 of its use for personal benefits as well as those of the
15 nation. And so it is with regard to the general policy
16 on small loans for productive and provident purposes which
17 the Caisses populaires make; they foster a freedom from
18 debts on the part of the members who eventually become
19 savers. But it is more at the level of the administrators,
20 members of credit committees and members of supervisory
21 committees that this economic education is more evident.
22 Each Caisse populaire is an autonomous co-operative with
23 its own board of directors of at least 5 members, a credit
24 committee and a supervisory committee of three members
25 each, which gives at the minimum a group of eleven lead-
26 ers in each Caisse populaire. As many Caisses populaires
27 have board of directors of 7, 9 or even more members, it
28 can be said that close to 20,000 people are participating
29 in the administration and leadership of the local Caisses
30 populaires, the regional unions of Caisse populaires and



1 La Federation de Quebec des Unions regionales des Caisses
2 populaires Desjardins.

3 68. All these people are learning the process of
4 administration of a Caisse populaire, how to interpret
5 financial statements and how to analyse loans and invest-
6 ments, etc. All this training and acquired information
7 received through their participation in the leadership
8 of the Caisse populaire is an asset for them in their
9 daily task, their profession or trade from which the
10 community benefits.

11

12 Education and publicity

13

14 69. The regional unions under the leadership of the
15 federation each maintain an education and publicity
16 service. In addition to its work in the promotion, pre-
17 paration and organization of new Caisses populaires, this
18 service provides programs aimed at the co-operative
19 education of the leaders and members. Some of the pro-
20 grams include educations committees, informative confer-
21 ences, courses on administration, group meetings of
22 managers and presidents, regional meetings and conventions
23 etc.

24 70. The movement also publishes a monthly magazine
25 "La Revue Desjardins" for the leaders and a membership
26 magazine called "Ma Caisse".

27 71. In addition, various other publications, pam-
28 phlets, etc., are distributed in order to inform the
29 members and the general public on Caisses populaires and
30 their services.



1 Complementary and information courses

2

3 72. Caisse populaires have also organized a few
4 years ago a number of courses aimed at improving the
5 knowledge of the directors, managers and employees of the
6 movement.

7 73. New employees in groups of 40, are invited to
8 attend various technical courses. Other employees of
9 various categories can attend courses which permit them
10 to specialize in certain aspect of the operations.

11 Managers are often given the opportunity to meet economists
12 and other specialists through week-end institutes. This
13 permits them to explore the co-operative doctrine and
14 benefit from the experience of other people. This has
15 prepared the movement towards the creation of truly
16 professional school of administration.

17

18 The Desjardins Institute

19

20 74. The various courses given all over the province
21 have become so numerous and important that it has recently
22 been decided to create a co-operative center for pro-
23 fessional training. It will be known as "L'Institut
24 Desjardins."

25 75. The experience acquired by those who are con-
26 cerned with adult education and researchs in educational
27 needs of the management and staff of the Caisse populaires
28 have permitted the Desjardins movement to plan a project
29 which will be unique in French speaking Canada. This
30 residential center for professional training will be



1 erected in Levis at the Cite des Jardins, and will be able
2 to accommodate groups of 40 to 50 people at a time.

3

4 Educational programs on television and radio

5

6 76. Both educational and publicity experts never
7 cease to praise and cite in example, the close co-operation
8 which has been developed during the past five years
9 between Radio-Canada's educational and public affairs
10 services, the Desjardins Mutual Life Assurance Company and
11 the Caisses populaires Desjardins. The television pro-
12 grams which they have created have been a real success
13 although a hazardous venture, in the beginning, for the
14 sponsors. But the success of these TV programs whereby
15 the average citizen is called upon to give his opinion on
16 the problems which he has to face and which are studied
17 by the programs.

18 77. The TV series "Joindre les deux bouts" was
19 followed by over 1-1/2 million listeners, a record for
20 this type of programs. The present series is known as
21 "Droit de Cite" and deals with public administration of
22 municipalities and school corporations.

23 78. The Caisses populaires Desjardins and the
24 Desjardins Mutual Life Assurance Company have also been
25 sponsoring a very popular program on the CBC French radio
26 network, called "Fete au Village."

27

28 Fight against usury

29

30 79. Caisses populaires have proved to be efficient



1 tools to combat usury favoured actually by a system of
2 instalment sales and by small loans at high interest rates.

3 80. The following figures show the importance of
4 loans made both in number and value:

5

	<u>Personal loans</u>		<u>Personal loans</u>	
<u>Fiscal year</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
1958	93,479	\$48,567,100.	18,055	\$66,832,471.
1959	101,326	56,565,201.	21,459	84,763,047.
1960	103,824	59,617,073.	17,637	64,993,017.
1961	115,593	72,051,631.	21,588	80,570,730.

12

13 81. For the year 1961, personal loans were divided
14 as follows:

15

	<u>Nombre</u>	<u>Montant</u>
Less than \$100.	11,747	\$ 595,596.
\$100. to \$199.99	16,818	2,225,754.
\$200. to \$499.99	37,631	11,555,796.
\$500. to \$999.99	29,400	18,299,353.
\$1,000. to \$4,999.99	18,340	25,024,677.
\$5,000. and over	<u>1,657</u>	<u>14,350,450.</u>
Total:	<u>115,593</u>	<u>\$72,051,631.</u>

24

25 82. Considerable sums of money have been spent by
26 the Federal Government in addition to the countless hours
27 of debate spent by the members of the House and the
28 senators each year to find efficient ways to curb loans
at exorbitant interest rates. The legislation which has
30 been passed has generally been ineffective, credit



1 grantors and lenders always find ways and means to get
2 around the law.

3 83. Caisse populaires have accomplished a consider-
4 able amount of work with regard to promoting better con-
5 ditions in the field of personal loans and home building
6 loans. Their interest rates and conditions of easy re-
7 payments make these types of loans possible to people with
8 modest means. Net surpluses of operations when they occur
9 are paid back to the borrowers as interest refunds.

10 84. Caisse populaires do not receive any advantage
11 from the Federal Government but through their activities
12 and those of their leaders and members, they add to the
13 wealth of the population who then becomes in a better
14 position to support tax requirements and increase the
15 productive activity of the country.

16 85. It is due to these efforts on the part of Caisse
17 populaires that banks have established branches in areas
18 where they did not previously operate. Caisse populaires,
19 over the years, had prepared the way through their con-
20 tribution to the economic development of these areas.
21 This phenomena will continue to happen due to the pioneer-
22 ing efforts of the members of Caisse populaires and their
23 leaders.

24
25 Other services being rendered without compensation to the
26 Federal and Provincial Governments

27
28 86. It is we believe proper to point out here that
29 Caisse populaires have rendered and are still rendering
30 other services to the Federal Government without any



1 form of compensation although these are costly operations
2 to the Caisses populaires. We wish to mention the cashing
3 of government cheques without charge. Although the
4 government keeps no deposits in the Caisses populaires
5 while these deposits are kept in the banks. The Caisses
6 populaires must therefore carry a debit float from the
7 moment the cheque is cashed or credited to the members'
8 account until it is reimbursed through a chartered bank.
9 In addition, orders of payment drawn on Caisses populaires
10 and payable to the Federal and Provincial Governments,
11 being deposited in chartered banks, lengthen the delays
12 of compensation and increase the debit float of the Caisses
13 populaires by millions of dollars without taking into
14 consideration a payment each year by the Caisses populaire
15 of \$550,000. in commissions.

16 87. Caisses populaires as all other institutions
17 have participated in the annual sale of Federal Government
18 Savings Bonds, but in this matter they are treated as
19 second class institutions as they have to pay these bonds
20 before they can sell them to their members, while the
21 banks receive these bonds on consignment. A similar un-
22 favorable situation exists with regard to the cashing of
23 the bonds or bond coupons which forces the Caisses
24 populaires to support the debit float so created.

25
26 III - CONCLUSIONS
27

28 88. The report of the Royal Commission on Co-
29 operatives published in 1945 states the following:
30 "people in poor circumstances are encouraged to develop



1 a habit of thrift," and the report says also that the
2 Caisse populaire "provides a service for those who are
3 either not provided with credit services from other lend-
4 ing institutions at all, or only at much higher rates
5 because of the risks involved." The affirmation that
6 "Caisse populaires enable and encourage the members to
7 solve their problems through self help rather than by
8 relying on Government aid in times of emergency or depre-
9 sed conditions," is conclusive.

10. The report continues: "We are satisfied that
11 Caisse populaires perform a highly useful function in
12 assisting people who are unable to take effective advan-
13 tage of savings and loan facilities provided by other
14 lending institutions. We are also satisfied that Caisse
15 populaires are not displacing any other type of business
16 enterprise, except to provide an alternative source of
17 loans in a field where individual money lenders or lend-
18 ing institutions do not provide similar credit facilities
19 at comparable net rates. It is clear, therefore, that
20 Caisse populaires provide a useful supplement to other
21 lending institutions and that the continued development
22 of Caisse populaires is desirable from the standpoint
23 of the public interest."

24. "Caisse populaires return to their members a
25 very high proportion of their surplus earnings. In some
26 cases, however, they are retaining amounts which appear to
27 be larger than are required for reserves against bad
28 loans and losses on the basis of past experience. If they
29 were to be taxed by the methods we have recommended for
30 co-operative associations, additions to these excess



1 reserves would be made subject to tax. However, the
2 individual amounts to be assessed would, in many cases,
3 be very small. Moreover, we consider that it is not
4 desirable to discourage the accumulation of reserves to
5 protect the savings of members who, for the most part,
6 receive small or very moderate incomes."

7 91. Finally, "It was argued, and with some justice,
8 that dividends paid on withdrawable shares were similar
9 to interest payments on bank deposits and should there-
10 fore not be subject to deduction at the source."

11 92. This is why the Royal Commission on Co-operatives
12 of 1945 has recommended:

13 1- "That the income of credit unions or Caisses
14 populaires continue to be excepted from taxation under
15 section 4, paragraph (q) of the Income War Tax Act."

16 2- "That section 4 (q) of the Income War Tax
17 Act be amended to make it clear:

18 a) that it includes federations whose
19 membership may comprise other credit unions,
20 (Caisses populaires); co-operative associations,
21 parishes, school districts and other similar
22 bodies.

23 b) that organizations excepted thereunder
24 must derive their revenues primarily from loans
25 made to members."

26 93. The Canadian Government has in fact approved
27 these recommendations and has incorporated them in the
28 Income Tax Act -- Chapter 148 - Part I - Revised Statutes
29 of Canada 1952:



1 "Article 62 - No tax is payable under this part upon the
2 "taxable income of a person for a period when that person
3 was ...
4 " (k) a corporation or association incorporated
5 "or organized as a Credit Union (Caisse populaire) or
6 "co-operative credit society if,
7 " (i) it was restricted to carrying on business
8 "in one province and it derived its revenues primarily
9 "from
10 " (A) loans made to, or cashing cheques for,
11 "members residing within the province, or
12 " B) Bonds of, or guaranteed by, the Government
13 "of Canada or a province, or
14 " C) Loans made to a co-operative credit society
15 "of which it is a member, or
16 " (ii) the members thereof were corporations or
17 "associations,
18 " A) incorporated or organized as Credit unions
19 " (Caisse populaires) substantially all of which derive
20 "their revenues primarily from loans made to members, or
21 "from bonds of, or guaranteed by the Government of Canada
22 "or a province.
23 " B) incorporated, organized or registered under
24 "provincial co-operative legislation or governed by such
25 "legislation, or...."
26 94. Caisse populaires Desjardins, as we have
27 pointed out, are devoting themselves by every possible
28 persuasive means, to the economic and social education
29 of their members. They attempt to reach the families in
30 order to help them administer their affairs and to live



1 within their means and in a sense of security. They try
2 to protect them from the abuses which exist in the field
3 of consumer credit and which are the cause of so many
4 family bankruptcies. They urge their members to save in
5 order to create a source of capital funds so necessary to
6 meet the investments required to develop our economy and
7 maintain our political autonomy.

85. Caisse populaires Desjardins therefore contribute their share to the prosperity and economic health of
9 Canada. By teaching their members the wise use of credit
10 and by maintaining that popular credit must be based on
11 popular savings and be a function of it, Caisse populaires
12 help regularize the consumer market and minimize periods
13 of unemployment which result from an over production that
14 can be attributed to an ill-used purchasing power and a
15 massive use of credit.

16 96. Caisse populaires are an important factor in
17 the economy progress and stability of the Canadian families.
18 That is why thousands of citizens devote themselves
19 to their administration without remuneration. They fully
20 realize and believe that they are participating in a
21 worthwhile program which aims to improve the general well-
22 being of the population from which all will benefit; they
23 are happy and glad to participate to the well-being of
24 the families and to the prosperity of the nation. This
25 is their remuneration and their salary.

26 -----
27
28

29 Note: Complete statistical information on Caisse populaires
30 were attached to the brief submitted by La



1 Fédération de Québec des Unions régionales des
2 Caisses populaires Desjardins to the Royal Commiss-
3 ion on Banking and Finance. That documentation
4 should be available to your Commission, if necessary.
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1

2

COMMISSION ROYALE D'ENQUÊTE

3

4

sur la

FISCALITÉ

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

MEMOIRE

soumis par

LA FÉDÉRATION DE QUÉBEC DES UNIONS RÉGIONALES

des

CAISSES POPULAIRES DESJARDINS

Mars 1963

(english on reverse side)



MEMOIRE

présenté par

La Fédération de Québec des Unions régionales
des Caisses populaires Desjardins

28

La Commission Royale d'Enquête sur la Fiscalité

TABLE DES MATIERES

<u>Page</u>	<u>Paragraphes</u>
I - <u>PRINCIPES GENERAUX</u>	
4	Introduction 1 - 21
15	Les Caisses populaires font l'éducation économique des foyers 22 - 24
17	Institutions démocratiques et sans but lucratif 25 - 28
18	Distribution équitable des trop-perçus d'opérations aux sociétaires et limitation de l'intérêt sur leur capital 29 - 33
20	Opérations aux taux courants du marché 34 - 47
25	Administration gratuite 48 - 50
27	Constitution d'une réserve indivisible 51 - 55
II - <u>OEUVRES D'UTILITE PUBLIQUE</u>	
28	Assistance financière de l'Etat 56 - 58
29	Contributions annuelles 59
30	Endroits privés de service bancaire 60 - 63



T A B L E D E S M A T I E R E S

<u>Page</u>		<u>Paragraphes</u>
31	Promotion de l'épargne	64
31	Caisses scolaires	65 - 66
32	Education professionnelle et administrative	67 - 68
33	Service d'éducation et de propagande	69 - 71
33	Cours de perfectionnement et d'information	72 - 73
34	Institut Desjardins	74 - 75
34	Programmes éducatifs de télévision et de radio	76 - 78
35	Combat de l'usure	79 - 85
37	Services gratuits aux gouvernements fédéral et provincial	86 - 87
38		88 - 96

III - CONCLUSIONS

* * * * *



1 - PRINCIPES GENERAUX

2

3 Introduction

4 1. Les classes laborieuses ont pris elles-mêmes
5 l'initiative, au début de notre siècle, d'organiser leur
6 propre système d'épargne et de crédit. L'usure dont elles
7 étaient les victimes de la part des petits prêteurs
8 capitalistes, leur a permis de se rendre compte qu'elles
9 devaient compter sur elles-mêmes pour bâtir un système de
10 crédit qui leur permettrait de satisfaire leurs besoins
11 économiques essentiels et de participer au progrès
12 économique du pays.

13 2. Les Caisses populaires Desjardins, en contrib-
14 uant au bien-être des familles et à la prospérité économique
15 nationale, aident l'Etat à s'acquitter de ses obligations
16 en agrandissant le domaine fiscal tout en soulageant
17 l'Etat de dépenses considérables qu'il devrait faire pour
18 aider les classes populaires à subvenir à leurs besoins
19 essentiels si elles n'assumaient pas la responsabilité
20 d'organiser et d'opérer elles-mêmes les entreprises par
21 lesquelles elles les satisfont tout en participant
22 activement au développement de l'économie nationale.

23 3. C'est le but du présent mémoire de rappeler
24 respectueusement à votre Commission sur la fiscalité au
25 Canada que les Caisses populaires Desjardins contribuent
26 aux revenus fiscaux de l'Etat canadien en agrandissant le
27 champ de la fiscalité grâce au progrès économique qu'elles
28 provoquent et qu'elles allègent les charges fiscales de
29 l'Etat par les fonctions économiques qu'elles remplissent
30 efficacement sans avoir recours à son assistance financière.



1 4. Les Caisses populaires Desjardins sont des
2 coopératives d'épargne et de prêts, c'est-à-dire des
3 associations de petits épargnans qui, à même leurs
4 épargnes mises en commun, se font mutuellement des prêts
5 pour organiser et opérer les entreprises par lesquelles
6 ils satisfont leurs besoins économiques essentiels.

7 5. Les "économiquement faibles" ont recours à
8 la coopération pour se créer une source de crédit basée sur
9 leur confiance mutuelle et alimentée par leurs petites
10 épargnes. Ils font la capitalisation de leur honnêteté,
11 de leur esprit d'initiative, de leur amour du travail et
12 de leur solidarité mutuelle pour se constituer une source
13 de capital qui leur permet d'organiser et d'opérer de
14 petites entreprises économiques et d'améliorer leur niveau
15 de vie économique et sociale. "Ni la banque, ni la
16 compagnie de prêt, a déclaré le fondateur des Caisses
17 populaires dans son témoignage au Comité de la Chambre
18 des Communes chargé de l'étude du projet de loi concernant
19 les sociétés coopératives et industrielles en 1907, ne
20 prétendent répondre aux besoins de crédit des pauvres
21 parce que ceux-ci n'ont rien d'autre à gager que leur
22 honnêteté et leur bonne volonté à rembourser."

23 6. C'est la réputation d'honnêteté de nos petites
24 gens et "leur bonne volonté à rembourser" qui ont rendu
25 possible l'établissement et le fonctionnement chez nous
26 de ces coopératives décentralisées d'épargne et de prêts,
27 les Caisses populaires "ou, selon les termes d'Alphonse
28 Desjardins dans sa brochure sur la Caisse populaire, (1911),
29 l'ouvrier et le cultivateur honnêtes, laborieux, sobres,
30 économes, peuvent se procurer les fonds dont ils ont



1 besoin pour alimenter leurs activités, se créer un foyer,
2 se libérer d'une dette onéreuse, faire des achats nécessaires au comptant."

4 7. Sous la direction éclairée d'Alphonse Desjardins,
5 rapporteur officiel des débats parlementaires à Ottawa,
6 les classes laborieuses, conscientes que l'usure dont
7 elles étaient les victimes de la part des petits prêteurs
8 capitalistes était rendue possible et facilitée par l'absence
9 d'un système de crédit adapté à leurs besoins, se
10 mirent à la tâche de bâtir elles-mêmes leurs institutions
11 d'épargne et de prêts; et elles les édifièrent selon la
12 formule coopérative où les propriétaires sont à la fois les
13 usagers et les bénéficiaires des institutions d'épargne
14 et de prêts et où le capital qui provient des épargnes
15 populaires y joue le rôle d'un bon serviteur qui reçoit une
16 rémunération limitée. Ces institutions d'épargne et de
17 prêts ainsi organisées par et pour le peuple sont les
18 Caisse populaires, dites Desjardins pour commémorer la
19 mémoire de leur fondateur, Alphonse Desjardins. Par elles,
20 les populaires apprennent à régler elles-mêmes leurs
21 problèmes économiques, no comptant plus sur les autres pour
22 le faire. "La voie à suivre, a écrit Alphonse Desjardins
23 dans sa brochure sur la Caisse populaire, pour le peuple
24 désireux de faire ses propres affaires, sans la tutelle
25 onéreuse de personne, est de s'associer et de prendre les
26 avantages commes les responsabilités qui résultent d'un
27 contrôle entier et d'une accession à la vie économique
28 complète, corollaire indispensable de l'émancipation civile
29 et politique dont nous jouissons. Après tout - et c'est le
30 fond même de ce régime - c'est le peuple lui-même qui fait



1 ses propres affaires économiques. Au lieu d'être
2 aujourd'hui gouvernés, comme les peuples l'étaient il y
3 a deux ou trois siècles, par un roi autocrate qui se
4 donnait comme un envoyé du ciel, nous nous gouvernons
5 nous-mêmes et nous régions tout ce qui touche au monde
6 politique par l'entremise de nos députés librement élus.
7 Pourquoi n'aurions-nous pas un régime aussi libre dans
8 le monde économique? Notre monde des affaires est loin
9 d'être une pure démocratie. Notre régime politique est
10 essentiellement démocratique, mais lorsque nous abor-
11 dons notre régime financier ou économique, vous y voyez
12 régner une pure aristocratie ou plutocratie."

13 8. Outre de former des citoyens imbus du sens de
14 la solidarité économique et de l'entraide mutuelle, les
15 coopératives d'épargne et de prêts développent chez
16 eux le sens de la prévoyance, de l'économie et de l'épargne,
17 et elles organisent le crédit du peuple sur une base dé-
18 centralisée, efficace et peu coûteuse. C'est bien là la
19 première étape qu'un peuple doit franchir pour organiser
20 convenablement son économie et s'engager sur la voie de
21 la prospérité économique et du progrès social.

22 9. Les Caisses populaires s'emploient à cette tâche
23 de formation économique des classes laborieuses. Elles
24 sont un facteur dynamique de progrès économique des gens
25 du peuple. Dans son mémoire sur l'organisation de l'agri-
26 culture dans la province de Québec, Alphonse Desjardins
27 exprima sa conviction à ce propos en ces termes: "Nous
28 n'hésitons pas à dire que nous voudrions voir la Caisse
29 populaire, c'est-à-dire l'association des modestes capitaux
30 locaux, être le centre d'activité, le foyer générateur



1 de ce mouvement (...) Or, l'un des moyens les plus
2 efficaces de succès est de s'assurer l'aide puissante
3 du crédit par l'organisation d'une caisse qui servira
4 de réservoir à l'épargne locale, laquelle se déversera
5 ensuite en prêts ou avances fécondantes sur les
6 initiatives individuelles ou collectives que ce mouvement
7 rénovateur aura provoquées."

8 10. Le crédit populaire, dans notre économie
9 d'échange qui requiert beaucoup de capital, doit s'aliment-
10 er de l'épargne populaire; il doit même favoriser la
11 pratique de l'épargne populaire, puisque c'est
12 cette pratique de l'épargne qui assure au peuple l'apprent-
13 issage du crédit. Le crédit, pour être à la fois populaire
14 et efficace, doit, dans notre économie moderne, prendre
15 sa source d'approvisionnement chez le peuple; il doit
16 être contrôlé par les intéressés eux-mêmes qui en assurent
17 la bonne administration et la distribution judicieuse et
18 peu coûteuse, afin qu'il soit vraiment populaire dans
19 ses objectifs, qui sont de satisfaire efficacement les
20 besoins de crédit des classes populaires.

21 11. L'expérience des Caisses de crédit mutuel de
22 l'Europe avait persuadé Alphonse Desjardins que la
23 coopération devait apporter les principes de base d'un
24 système efficace de crédit populaire parce que la coopér-
25 ation, outre de faire appel à l'effort personnel, à
26 l'initiative individuelle, à l'esprit de prévoyance de
27 ceux qui font usage du crédit, multiplie leurs forces
28 individuelles en les coordonnant et leur permet de régler
29 eux-mêmes leurs problèmes communs.

30 12. C'est pourquoi la coopérative de crédit populaire



1 est d'abord une institution d'épargne, c'est-à-dire une
2 institution qui enseigne aux classes populaires le sens
3 de la prévoyance, de l'économie, de la petite épargne,
4 de façon à ce que les classes populaires en viennent à
5 alimenter elles-mêmes, par leurs propres épargnes, leurs
6 propres institutions de crédit et à édifier et à admin-
7 istrer elles-mêmes les institutions nécessaires à la
8 satisfaction de leurs besoins économiques essentiels, et
9 deviennent ainsi un facteur important de progrès
10 économique de toute la nation et ne soient pas à charge
11 de l'Etat. Est-il possible d'organiser convenablement
12 l'économie d'un peuple sans d'abord développer chez lui
13 le sens de la prévoyance et de la saine économie et sans
14 recueillir et bien utiliser les petites épargnes qui
15 résultent de la pratique des vertus de prévoyance et
16 d'économie chez les classes populaires. "Pour ce qui
17 regarde l'épargne, écrit Monsieur Desjardins dans sa
18 lettre à Charles Rayneri, directeur du Centre fédératif
19 du crédit populaire de France, le 18 octobre 1900, je
20 désire que nos sociétés soient de véritables écoles
21 enseignant la pratique de cette vertu sociale, et pour
22 cela nous recevrons des dépôts d'un montant même de
23 cinq sous."

24 13. Au début du siècle, le peuple possédait peu
25 d'argent et il avait peu l'habitude de l'épargne. Dans
26 son témoignage devant le comité spécial de la Chambre
27 des Communes chargé de faire enquête en marge du projet
28 de loi concernant les sociétés coopératives et industrielles
29 (1907), Alphonse Desjardins déclara à ce propos: "L'homme
30 du peuple ne songe point à faire la moindre épargne parce



1 que, suivant lui, ça ne vaut pas le peine de mettre des
2 sous de côté." Et dans son mémoire sur l'organisation
3 de l'agriculture de la province de Québec, il parle du
4 "mépris de l'épargne" et du "dédain affligeant pour la
5 petite économie" chez le peuple comme d'un "vice national"
6 source de misère et de souffrances tant individuelles que
7 collectives et engendrant un mal général qui tient nos
8 populations dans une déplorable dépendance économique."

9 14. L'éducation à l'économie et à l'épargne, voilà
10 la première tâche qu'Alphonse Desjardins confia à la
11 Caisse populaire. Elle doit recueillir toutes les
12 épargnes, les canaliser et en faire une puissance
13 économique.

14 15 Bien que l'homme soit intelligent et capable de
15 prévoir, l'épargne n'en est pas pour autant une qualité
16 naturelle de l'homme; de sa nature, l'homme n'est pas
17 enclin à épargner. C'est pourquoi les citoyens ont
18 besoin de protection, car ils sont plus enclins à
19 dépenser leur argent qu'à vouloir le garder. Le Caisse
20 populaire apporte cette sauvegarde. Elle sollicite
21 l'épargne, en rappelle sans cesse la nécessité, facilite
22 les dépôts d'épargne chez elle, est d'accès commode à
23 tous. Toutes les petites épargnes doivent être recueillies,
24 sinon elles sont en grand péril d'être gaspillées.
25 Les Caisses populaires s'efforcent d'opérer le sauvetage
26 des petites épargnes, fruit du travail. Outre la
27 facilité qu'elles accordent aux dépôts d'épargne, les
28 Caisses populaires Desjardins assurent la sécurité et
29 favorisent le bon emploi des épargnes. C'est une règle
30 d'or qu'elles ont à cœur d'observer pour bien remplir



1 leur première fonction de coopératives d'épargne.

2 16. Voici à ce propos toute la pensée du fondateur
3 des Caisses populaires, telle qu'il l'a exprimée dans une
4 conférence prononcée au Congrès de la Jeunesse à Québec
5 en 1908 sur les Caisses populaires. "Mais, objectera-
6 t-on: Pourquoi ces caisses d'épargne, n'avons-nous pas
7 de banques qui, grâce à leurs succursales, vont partout re-
8 cueillir l'épargne? D'abord, les banques ne sont pas des
9 créations ayant pour objet de faire du bien aux masses
10 populaires ou de solutionner la question sociale sur le
11 terrain économique. Elles n'y ont jamais songé et par
12 bonheur, car elles ne sont nullement outillées pour une
13 pareille mission. Elles failliraient donc sûrement à la
14 tâche, tout en ne réussissant pas aussi bien à enrichir
15 leurs actionnaires, but unique de leur fondation.

16 Laissons à chaque organe la fin qui lui est propre et
17 pour laquelle il est fait, et les choses n'en iront que
18 mieux.

19 17. En second lieu, est-on bien fondé à prétendre
20 que nos banques vont partout. Sans nous arrêter au
21 péril économique qui réside dans ce drainage perpétuel de
22 l'épargne locale au seul profit des grands centres, et là
23 au seul avantage d'une certaine clientèle - n'est-il pas
24 vrai que, malgré la multiplicité inquiétante, surtout
25 depuis quelques années, de ces succursales - la grande
26 majorité de nos paroisses sont privées de ces réservoirs
27 d'épargne. Et la raison en est bien simple, c'est que
28 la banque est une compagnie inventée pour l'unique
29 avantage de ses actionnaires, non une création sociale
30 cherchant d'abord à faire du bien sans compter, ni sans



1 espoir de bénéfices fort plantureux. Ce qu'elle veut,
2 ce sont des profits pour grossir le dividende de fin
3 d'année. Voilà la vérité toute nue. Or, il y a une foule
4 de paroisses où l'entretien d'une agence ou succursale
5 serait une source de perte, non de gain. On s'abstient
6 donc. Faut-il s'en étonner ou le déplorer? Loin de le re-
7 gretter, on a plutôt raison de s'en réjouir; si cette
8 abstention doit avoir pour effet de réveiller les initiat-
9 ives locales et les amener à créer le réservoir beaucoup
10 plus bienfaisant, beaucoup plus
11 conforme aux besoins de nos paroisses sous forme de
12 Caisses populaires.

13 18. Enfin, les banques ne font pas le crédit aux
14 pauvres. Elles prêtent à une clientèle qui se recrute
15 principalement dans les grandes industries et le
16 commerce (...). Sans nous préoccuper outre mesure du
17 sort des banques, sachant fort bien qu'elles sont d'humeur
18 et en état de se protéger elles-mêmes, nous pouvons affirmer
19 que la multiplication des Caisses populaires leur
20 serait très avantageuse en ce qu'elle grossirait le flot
21 'des épargnes, et par là même, la richesse glooale du
22 pays, ce qui accroitrait l'activité économique, d'où
23 il résulterait un profit incontestable pour les grandes
24 banques. C'est le phénomène qui s'est produit ailleurs.
25 Pourquoi n'en serait-il pas de même ici? Depuis quand
26 les écoles élémentaires ont'elles fait du tort aux
27 universités? Ne faut-il pas savoir lire et écrire pour
28 fréquenter ces maisons d'enseignement supérieur? Or, la
29 Caisse populaire est l'école élémentaire économique.



1 Quoi que l'on fasse, la grande banque ne recueillera
2 jamais le sou, cela coûte trop, grâce à son organisation
3 luxueuse et à son personnel largement payé - tandis que
4 la Caisse local le fera aisément par devoir d'abord,
5 et par suite de son mode même de fonctionnement basé sur
6 le dévouement social."

7 19. Les buts que les Caisses populaires poursuivent
8 par leur mode de distribution du crédit et d'amortissement
9 de leurs prêts au moyen de petites remises régulières
10 ne diffèrent pas de ceux qu'elles veulent atteindre
11 comme coopératives d'épargne. Le service de crédit de la
12 Caisse populaire Desjardins s'inspire des mêmes principes
13 et poursuit le même but que le service d'épargne: l'amélioration
14 des conditions économiques et sociales des
15 sociétaires, et c'est toujours, d'une part comme de
16 l'autre par la pratique de la prévoyance, de l'économie
17 et de l'épargne. Les emprunteurs sont incités par cette
18 exigence des petites remises sur leurs emprunts à
19 pratiquer la prévoyance et l'économie de façon à réaliser
20 des épargnes qui leur permettront de rembourser petit à
21 petit leurs emprunts et d'améliorer leur situation économique et sociale. Voilà pourquoi les commissaires de
22 crédit doivent connaître les buts des emprunts et s'assurer
23 que les prêts seront vraiment utiles ou avantageux aux
24 emprunteurs. Voilà pourquoi également la commission de
25 crédit exige des emprunteurs qu'ils s'engagent à faire des
26 petites remises régulières sur leurs emprunts, afin qu'ils
27 soient incités à mettre de l'ordre dans leurs affaires,
28 à pratiquer la prévoyance, la tempérance de vie et
29 l'économie, à faire des efforts soutenus pour bien



1 organiser leur entreprise et leur train de vie de façon
2 à réaliser les épargnes qui leur permettent d'améliorer
3 leur situation économique et sociale. Voilà le travail
4 d'éducation économique et sociale que font les
5 commissaires de crédit en s'acquittant de leur rôle
6 conformément à l'esprit du fondateur qui a voulu que sa
7 Caisse populaire soit dans chacune de nos paroisses une
8 école pratique d'éducation économique et sociale des
9 citoyens.

10. Le bon emploi du crédit nécessite chez les
11 emprunteurs des qualités morales et des aptitudes
12 professionnelles, car les sociétaires, pour emprunter
13 de leur Caisse populaire, doivent réunir des qualités qui
14 les recommandent à leur Caisse populaire. Ils doivent
15 être sociétaires, c'est-à-dire, "honnêtes, bons payeurs,
16 sobres et bons travailleurs" (article 7 des statuts).
17 Les commissaires de crédit, en examinant la demande
18 d'emprunt, considèrent d'abord les garanties morales,
19 puis la solvabilité de l'emprunteur. L'honnêteté, c'est
20 la plus grande richesse. Elle passe en premier lieu.
21 Pour prendre l'expression de Luzzati, fondateur des
22 banques populaires coopératives en Italie, les Caisses
23 populaires font "la capitalisation de l'honnêteté". C'est
24 la base même de leur politique de crédit. Les Caisses
25 populaires tiennent compte, en premier lieu, de la
26 valeur morale et des aptitudes ou qualités profes-
27 sionnelles de leurs sociétaires qui veulent emprunter et
28 elles vérifient ensuite leur situation financière. Elles
29 s'assurent de l'utilisation fractueuse des emprunts
30 et de leur remboursement selon les conditions offertes



1 par les emprunteurs et jugées acceptables par leurs
2 commissaires de crédit.

3 21. Autant d'exigences qui démontrent à l'évidence
4 que les Caisses populaires sont des écoles de formation
5 économique et sociale des classes populaires et qu'elles
6 ont pour principale préoccupation d'aider les gens
7 d'humbles conditions économiques à s'aider mutuellement à
8 améliorer leur situation économique et à devenir un
9 facteur qui compte dans le développement de l'économie
10 de la nation canadienne.

11

12 Les Caisses populaires font l'éducation économique
13 des foyers

14 22. Les Caisses populaires Desjardins, avons-nous
15 rappelé, sont des écoles paroissiales de prévoyance,
16 d'économie, d'épargne et d'apprentissage du bon crédit.

17 23. Elles cherchent à protéger les épargnes qui leur
18 sont confiées et voient à ce qu'elles soient bien
19 utilisées. Elles ont aussi à cœur d'amener les familles
20 des sociétaires à se bien administrer. Si les familles
21 d'une même paroisse se groupent au sein d'une Caisse
22 populaire, c'est pour s'entraider mutuellement. Or cette
23 entraide ne saurait se limiter à la conservation et à
24 la bonne utilisation de leurs épargnes; elle embrasse
25 aussi l'éducation administrative des foyers. Il suffit
26 pour s'en convaincre de réfléchir sur les buts que les
27 Caisses populaires pour suivent. L'épargne ne se
28 développe pas chez nous à un rythme suffisant pour
29 satisfaire les besoins d'investissement de notre jeune
30 pays en pleine expansion. À surplus, en dépit ou à



1 cause des salaires et des revenus plus élevés dont
2 jouissent les Canadiens, les dettes à la consommation ont
3 pris depuis la fin du dernier conflit mondial, des propor-
4 tions considérables, voire même inquiétantes. Les conditions
5 de vie, les aspirations et les besoins de nos familles ont
6 subi de profondes transformations avec l'industrialisation
7 et l'urbanisation de notre société.

8 24. Conscientes de leurs responsabilités vis-à-vis
9 nos classes populaires, la Fédération de Québec des Unions
10 régionales des Caisses populaires Desjardins et l'Assur-
11 ance-Vie Desjardins, désireuses de se bien renseigner sur
12 les conditions de vie actuelle de nos foyers et de leurs
13 besoins essentiels, ont demandé en 1957 au Centre de
14 Recherches économiques et sociales de l'Université Laval,
15 Québec, d'entreprendre une enquête scientifique sur
16 les conditions de vie, les aspirations et les besoins
17 de nos familles salariées dans le Québec. Une telle
18 enquête a fait la lumière sur les facteurs qui condition-
19 nent le comportement des foyers vis-à-vis l'épargne et
20 l'usage du crédit devant leurs besoins de consommation.
21 Elle a défini leurs conditions de vie, leurs aspirations
22 et leurs besoins, elle a apporté des données sûres aux
23 dirigeants du mouvement des Caisses populaires qui sont
24 à mettre à point des politiques efficaces concernant
25 l'épargne et le crédit, et à préciser les méthodes les
26 plus aptes à amener les familles à se bien administrer,
27 à faire un meilleur usage du crédit et à se créer des
28 réserves pour l'avenir.



1 2) all people it intends to serve are equally free to
2 be or not to be members of the Caisse populaire.

3 27. Caisse populaires are associations of people,
4 they are not associations of capital funds or shareholding
5 companies as are the banks or finance companies. In a
6 Caisse populaire the voting power is attached to the
7 person; in the bank the voting power is attached to the
8 shares, the money. Members of a Caisse populaire take
9 their decisions at annual meetings or special meeting on
10 the principle of one member, one vote, and not on the
11 basis in use in capitalistic societies where each share-
12 holder has as many votes as he has shares. Shareholders
13 of a bank based on the capitalistic principle who own
14 or through proxies control more than 50% of the shares
15 can effectively control the organization, take adminis-
16 trative decisions and determine the amount and the way
17 profits are distributed to shareholders.

18 28. Members of a Caisse populaire are, at the same
19 time the owners, users, and beneficiaries of their
20 organization. They entrust it with the administration
21 of their savings, borrow from it when in need of money.
22 They choose, among themselves and in accordance with the
23 social rule of one member, one vote, the members of the
24 three boards or committees which administer their Caisse
25 populaire, make them loans and supervise its operations.
26 The mutual relations among the members are therefore
27 developed and based on social equality which guarantees
28 the co-operative principle: One member, one vote.



1 Equitable distribution of the operating surplus to the
2 members and limitation of interest on their capital

3

4 29. The Caisse populaire Desjardins is the integration of two forms of co-operatives: the savings co-operative and the credit co-operative.

5

6 30. It is therefore important to keep in mind this double characteristic of the Caisse populaire in order to understand how the co-operative principle of distributing surplus to members is applied. It is done in proportion of the business done by the members with their Caisse popular.

7

8 31. The rule of equity which regulates the economic relations of the Caisse populaire with its members requires the application of two co-operative principles whereby surpluses of operations are paid back to the members in relation to their volume of transactions with their Caisse populaire: 1) a limitation of the interest paid on capital; 2) a return of the surpluses to the members in proportion to the transactions they have made with their Caisse populaire and not in accordance with capital invested in their Caisse populaire.

9

10 32. The Caisse populaire pays a limited interest on its share capital (capital social). This interest is slightly higher than that paid on savings, because the members' financial responsibility is in relation to their social shares; in this way social capital involves a certain risk which does not exist as far as savings are concerned. It must also be noted that the member has to pay an "entrance fee" on each share and that the



1 sociétaires exige l'application des deux principes
2 coopératifs en vertu desquels les excédents nets d'opér-
3 ations ou trop-perçus doivent être remis aux sociétaires
4 en proportion de leurs transactions avec leur Caisse
5 populaire: 1) la limitation de l'intérêt sur le
6 capital; 2) la remise des excédents net d'opérations
7 aux sociétaires au prorata des opérations qu'ils ont
8 faites avec leur Caisse populaire, et non pas en propor-
9 tion de leur capital payé à leur Caisse populaire.

10 32. La Caisse populaire paie un intérêt limité sur
11 le capital social (les parts sociales). L'intérêt sur les
12 parts sociales est légèrement plus élevé l'intérêt sur
13 l'épargne, précisément parce que la responsabilité
14 financière des sociétaires est légalement attachée à
15 leurs parts sociales; le capital social encourt de ce
16 fait un certain risque qui n'affecte pas l'épargne. A
17 noter aussi que le sociétaire paie une taxe d'entrée sur
18 chaque part sociale qu'il prend et que cette part sociale,
19 quel que soit le degré de développement et d'efficacité
20 administrative de la Caisse populaire, ne varie jamais
21 quant à sa valeur. Cette taxe d'entrée est un contribu-
22 tion directe au fonds de réserve de la Caisse populaire.
23 Le sociétaire n'en sera jamais remboursé. Aussi, la
24 Caisse populaire paie-t-elle, pour ces diverses raisons,
25 au sociétaire sur son capital social une compensation sous
26 la forme d'un intérêt légèrement plus élevé. Cet intérêt
27 sur les parts sociales est appelé "boni" pour le
28 distinguer de l'intérêt sur l'épargne. Il n'est pas le
29 dividende qui, dans la banque, représente le partage des
30 profits entre les actions. Car si le boni était là même



1 chose que le dividende, il suivrait, comme le dividende,
2 la courbe des excédents nets; plus les excédents nets
3 seraient considérables plus le boni serait élevé. Mais
4 il n'est pas ainsi: Les Caisses populaires Desjardins
5 limitent l'intérêt sur le capital social, le traitent
6 comme un bon serviteur, elles lui donnent un salaire
7 raisonnable.

8 33. La Caisse populaire paie à ses sociétaires-
9 déposants un intérêt limité, celui qui est généralement
10 accordé dans les autres institutions d'épargne, elle
11 charge à ses sociétaires - emprunteurs un intérêt un
12 peu plus élevé. La marge excédentaire de l'intérêt payé sur
13 obtenu de ses prêts et placements sur l'intérêt payé sur
14 l'épargne est établie de façon à payer les frais
15 d'administration, à pourvoir à des réserves jugées
16 nécessaires pour consolider sa position financière et
17 compenser les pertes éventuelles, et à payer un intérêt
18 raisonnable sur les parts sociales des sociétaires.

19

20 Opérations aux taux courants du marché

21 34. Cette méthode coopérative concerne également la
22 concurrence Les sociétaires n'ont pas intérêt à entrer
23 en guerre contre les autres institutions financières,
24 par des taux plus élevés ou plus bas que ceux du marché.

25 35. D'après les chiffres publiés à la page 131 de
26 notre mémoire à la Commission Royale d'Enquête sur le
27 Système Bancaire et Financier, 1105 Caisses populaires
28 sur un total de 1212, au 31 décembre 1961, ont payé un
29 boni ou intérêt sur le capital de 3% à 5%. Le mode et la
30 médiane étaient de 4%, la moyenne arithmétique, 4.06% et



1 la moyenne pondérée par le capital social au 31 décembre
2 1961, de 4.90%.

3 36. A la page 126 du même mémoire, on constate que
4 1149 Caisses populaires sur 1212, au 31 décembre 1961, ont
5 payé de 2% à 3.49% d'intérêt sur l'épargne. 635 Caisses
6 ont payé de 3% à 3.49%; donc la plupart tombaient dans
7 la catégorie du 3%, taux payé par les banques. Le mode
8 et la médiane étaient 3%, la moyenne arithmétique 2.72%
9 et la moyenne pondérée par l'épargne, au 31 décembre 1961,
10 2.96%.

11 37. Pour ce qui est des taux d'intérêt sur les prêts,
12 d'après les chiffres cités à la page 119 du mémoire
13 à la Commission Royale d'Enquête sur le Système Bancaire
14 et Financier, 1126 Caisses populaires sur 1212 chargeaient,
15 au 31 décembre 1961, de 6% à 7.49% d'intérêt pour leurs
16 prêts personnels sur reconnaissance de dette. Le mode
17 et la médiane étaient de 7%, la moyenne arithmétique
18 6.63% et la moyenne pondérée par les prêts en cours,
19 au 31 décembre 1961, de 6.75%. 812 Caisses populaires
20 sur 1212 avaient un taux d'intérêt variant de 6% à 6.99%
21 sur prêts hypothécaires. Le mode et la médiane étaient
22 6%, la moyenne arithmétique 5.57% et la moyenne pondérée
23 par les prêts en cours, au 31 décembre 1961 de 6.32%.

24 38. L'intérêt sur les prêts est toujours calculé
25 sur le solde dû, les taux d'intérêt mentionnés ici sont
26 donc des taux réels. Une Caisse populaire ne charge
27 jamais l'intérêt sur le montant original et pour toute
28 la durée du prêt, comme le font certaines autres institu-
29 tions, ce qui augmente considérablement le taux réel
30 chargé. De plus, les Caisses populaires ne chargent



1 jamais de frais d'administration sur les prêts ou un
2 minimum d'intérêt, même lorsque l'intérêt charge représ-
3 ente une somme minime de \$0.10 sur \$0.20.

4 39. Les succès des Caisse populaires s'expliquent
5 en grande partie domme suit:

6 a) Décentralisation -

7 - Chaque Caisse populaire est autonome. Elle
8 recueille l'épargne des sociétaires de la paroisse
9 et la prête aux sociétaires de la paroisse. L'argent
10 local est donc utilisé localement pour accroître le
11 bien-être et la prospérité de la localité.

12 b) Service -

13 - Le fait, pour le sociétaire, d'être un des prop-
14 riétaires de l'entreprise et d'être servi par quel-
15 qu'un de sa paroisse, bien au courant de ses
16 problèmes, et la qualité du service, tout cela attire
17 davantage le sociétaire et l'amène à confier son
18 épargne et à emprunter de préférence à sa propre
19 Caisse.

20 40. Les Caisse populaires ne font pas le commerce
21 de l'argent; elles n'enrichissent pas un petit nombre
22 de sociétaires avec les épargnes du public. Car seuls les
23 sociétaires peuvent déposer leurs épargnes à leur Caisse
24 populaire, seuls les sociétaires peuvent y emprunter. Ils
25 mettent leurs épargnes en commun pour s'en servir, et non
26 pas pour qu'un petit groupe l'entre eux fasse des profits
27 avec l'argent des autres. Les Caisse populaires n'emprunt-
28 ent pas d'argent et ne reçoivent pas de dépôts d'épargne
29 de personnes qui ne sont pas sociétaires en vue de prêter
30 cet argent pour faire des profits.



1 41. Les banques, par contre, acceptent les dépôts
2 d'argent de tous et prêtent à ceux auxquels elles estiment
3 profitable de faire des prêts; elles font le commerce
4 de l'argent; elles reçoivent les dépôts d'épargne du
5 public et les prêtent à un taux d'intérêt plus élevé en
6 vue d'encaisser des profits. Leurs actionnaires se les
7 partagent en proportion du montant des actions qu'indiv-
8 iduellement ils détiennent dans les banques. Comme le
9 terme dividende l'indique bien, ils se divisent les
10 profits d'après les actions qu'ils détiennent, sans
11 compter que les actions prennent une plus-value qui aug-
12 mente avec la rentabilité de l'entreprise au profit de
13 l'actionnaire; car en plus de recevoir un dividende,
14 l'actionnaire encaisse éventuellement un gain de capital.

15 42. Les Caisses populaires ne peuvent évidemment
16 pas savoir à l'avance de façon exacte ni le montant total
17 de leurs dépenses d'administration, ni le montant précis
18 des intérêts à être payés sur leur capital social et
19 leur épargne, qui sont nécessairement variables. Elles
20 exigent un intérêt sur les prêts qui excédera selon toute
21 prévision les dépenses et les intérêts totaux à payer et
22 qui leur permettra aussi de pourvoir au réserves jugées
23 nécessaires à leur fonctionnement normal. Si, en fin
24 d'année d'exercice, il y a un trop-pergu ou un excédent
25 net après paiement d'un boni raisonnable sur les parts
26 sociales, la Caisse populaire remettra aux emprunteurs
27 cette part d'intérêt qu'elle a exigé en trop d'eux. Cette
28 remise ou ristourne des excédents nets ramène les
29 opérations des prêts au prix coutant.

30 43. Cette ristourne varie nécessairement avec les



1 intérêts que les emprunteurs ont payés en trop sur les
2 emprunts plus ou moins considérables qu'ils ont effectués
3 à la Caisse populaire. Plus un emprunt est considérable,
4 plus élevé est le montant d'intérêt payé, plus forte est
5 la ristourne à l'emprunteur. C'est la remise du trop-
6 perçu selon la règle d'équité ou de proportionnalité
7 qui remet à chacun ce qui lui est dû, c'est la distrib-
8 ution des excédents nets en proportion des transactions
9 faites par les emprunteurs avec leur Caisse populaire.

10 44. Traitant de la distribution des excédents nets
11 de la Caisse populaire, Monsieur Desjardins écrit dans sa
12 brochure sur la Caisse populaire: "Or, les Caisses ont
13 adopté pour règle absolue de les traiter (les épargnistas
14 et les emprunteurs) tous deux avec une justice égale."
15 Chaque fois donc que le boni est accru, chaque fois aussi les
16 conditions faites aux emprunteurs sont bonifées. C'est
17 l'application du régime coopérateur sur lequel reposent ces
18 sociétés d'épargne et de crédit. C'est là, il est vrai, un
19 principe nouveau en une telle matière, mais ce principe se
20 recommande parce qu'il est fondé sur l'équité et la soli-
21 darité bien comprises. Il ne faut pas oublier, non plus,
22 que même les emprunteurs profitent des bonis accrus,
23 puisqu'ils sont sociétaires, et, comme tels, propriétaires
24 de parts joissant de ces bonis. Il s'ensuit donc que tous
25 seront doublement intéressés au maintien de la Caisse comme
26 épargnistas et comme emprunteurs éventuels par les avan-
27 tages qu'ils en retireront.

28 45. Monsieur Desjardins voulait que sa Caisse popu-
29 laire rendît à chacun selon son dû en traitant avec la même
30 justice les déposants et les emprunteurs; les premiers, en
leur donnant un intérêt raisonnable,



1 les seconds, en leur réduisant par une ristourne l'intérêt
2 sur leurs emprunts lorsqu'il y a excédent net d'opérations.

3 46. Les Caisses populaires Desjardins s'en tiennent
4 à ce principe de justice pour tous leurs sociétaires.

5 L'article 46 de leurs statuts généraux formule cette
6 règle de traiter avec une "justice égale" les sociétaires,
7 dans la distribution de leur excédent de bénéfices en ces
8 termes: "Toute augmentation du boni auquel est accompagnée
9 d'une bonification correspondante dans les conditions
10 des prêts faits aux sociétaires soit sous forme d'un
11 abaissement du taux de l'intérêt prélevé, soit autrement."

12 47. Il peut arriver qu'en fin d'année il n'y ait
13 pas d'excédents nets à distribuer, une fois l'intérêt
14 sur l'épargne et les dépenses payés, les réserves
15 constitutées selon les règlements et un intérêt raisonnable
16 versé sur les parts sociales. La Caisse populaire n'a
17 pas, en une telle occurrence, à accorder une ristourne
18 aux emprunteurs. Société sans but lucratif, elle a
19 déjà réalisé ses opérations au prix coûtant.

20 Administration gratuite

21 48. La Caisse populaire est une institution pour
22 des gens à revenus modestes. Ses frais d'opérations
23 sont réduits à un strict minimum afin qu'elle coûte le
24 moins cher possible à ses sociétaires qu'elle veut aider.
25 Voilà pourquoi son fondateur a voulu que son adminis-
26 tration fût gratuite. Seuls le gérant et les employés
27 peuvent recevoir une rémunération. Donc pas de jetons
28 de présence, pas de commission aux dirigeants de la
29 Caisse populaire; leurs services doivent être absolument
30 gratuits. La loi des Syndicats coopératifs de Québec



1 régissant nos Caisses populaires stipule en effet (article
2 23): "Les fonctions des membres du conseil d'administration,
3 du conseil de surveillance et de la commission de crédit
4 sont gratuites. Les services du gérant peuvent être
5 rétribués."

6 49. L'administration à bon compte de la Caisse
7 populaire est d'ailleurs facilitée par le fait que ses
8 activités sont confinées à la paroisse où les gens se
9 connaissent. "Toutes les activités productives ou avant-
10 ageuses de la société étant essentiellement coopératives
11 sont exclusivement restreintes aux sociétaires. Ces
12 activités, d'ajouter la loi des Syndicats coopératifs
13 de Québec (article 6) qui régit les Caisses populaires
14 Desjardins du Québec, ne sont pas réputées constituer
15 l'exploitation d'un commerce, d'un établissement financier
16 ou d'un moyen de profit."

17 50. La Caisse populaire ne peut accepter comme
18 sociétaires que les citoyens demeurant dans sa circonscrip-
19 tion territoriale, qui est la paroisse, règle générale.
20 Seuls les sociétaires peuvent participer aux opérations
21 de leur Caisse populaire. Seuls les sociétaires peuvent
22 y déposer leurs épargnes, seuls les sociétaires peuvent
23 emprunter d'elles. Ce caractère coopératif des opérations
24 des Caisses populaires Desjardins que sanctionne la
25 loi a déjà été reconnu d'ailleurs par les autorités fé-
26 dérales de l'impôt. Lors de l'amendement adopté à la loi
27 de l'Impôt, en 1931, qui exemptait les Caisses populaires
28 de l'impôt ou de la taxe sur le revenu, l'Honorable
29 Euler, alors Ministre du Revenu national, déclara:
30 "Les membres de ces organisations (les Caisses populaires



1 Desjardins ou "Credit Unions") mettent leurs économies en
2 commun dans un but unique, celui de se prêter mutuellement
3 leurs économies. C'est entièrement une institution
4 coopérative." En résulte cet avantage matériel qui est
5 de réduire les frais d'opérations à un strict minimum.
6 Les déposants et les emprunteurs en bénéficient; grâce
7 à cette économie administrative, ils peuvent profiter
8 de conditions d'intérêt plus favorables.

9

10 Constitution d'une réserve indivisible

11 51. Les Caisses populaires se constituent, à même
12 partie de leurs excédents nets annuels, des réserves en
13 vue de se protéger contre les pertes éventuelles dans
14 leurs opérations et d'être en mesure de rendre plus de
15 services à leurs sociétaires.

16 52. L'administration économique des Caisses pop-
17 ulaires que permet leur mécanisme d'opérations simple et
18 peu coûteux parce que décentralisé, fonctionnant au
19 niveau des besoins des sociétaires, la gratuité des
20 fonctions administratives, et la contribution directe des
21 sociétaires qui paient sur chaque part sociale qu'ils
22 souscrivent une taxe d'entrée qui est versée à la réserve,
23 expliquent que les Caisses populaires aient pu se
24 constituer peu à peu les réserves jugées nécessaires à
25 la protection des épargnes de leurs sociétaires contre
26 les pertes éventuelles et de leur confiance que favorise
27 la sécurité administrative de leurs Caisses populaires.
28 Ces réserves appartiennent en propre à la Caisse populaire
29 et elles ne peuvent jamais être distribuées aux sociét-
30 aires. En cas de dissolution de la Caisse populaire, le



1 solde de son actif réalisé (y compris évidemment les
2 réserves) lui appartenant en propre est distribuée ou
3 affectée dans la circonscription territoriale de la
4 Caisse populaire à une ou des œuvres d'utilité générale
5 désignée par le Lieutenant-gouverneur en conseil.

6 53. Une telle disposition légale écarte toute
7 tentation chez les sociétaires de se partager les réserves
8 de leur Caisse populaire et elle indique bien que la
9 Caisse populaire ne recherche pas le profit, mais bien
10 le service mutuel des sociétaires.

11 54. De telles réserves contribuent à développer une
12 plus grande confiance chez les sociétaires-déposants
13 envers leur Caisse populaire, parce qu'ils y voient un
14 moyen de protéger leurs épargnes contre les pertes évent-
15 uelles et de se rendre plus de services et à meilleur
16 compte.

17 55. Les Caisse populaires s'emploient à rendre à
18 meilleur compte possible à leurs sociétaires certains
19 services économiques dont ils ont besoin pour accéder à
20 un certain bien-être et s'engager sur la voie de la
21 prospérité économique et du progrès social. Aussi, les
22 Caisse populaires Desjardins ont-elles été reconnues des
23 œuvres d'utilité publique et des institutions qu'il
24 faudrait s'empresser de fonder et de développer dans
25 l'intérêt de la nation si elles n'existaient pas.

27 II - OEUVRES D'UTILITÉ PUBLIQUE

29 Assistance financière de l'Etat

30 56. Le gouvernement fédéral n'a jamais rien



1 déboursé, sous quelque forme que ce soit, pour aider,
2 surveiller ou contrôler les Caisses populaires, qui
3 sont d'ailleurs sous la juridiction provinciale.

4 57. La même observation s'applique au gouvernement
5 de Québec, sauf une subvention annuelle de \$90,000. qu'il
6 verse à la Fédération de Québec des Unions régionales
7 des Caisses populaires Desjardins, comme geste d'enour-
8 agement à donner un service financier à des populations
9 qui en seraient privées autrement.

10 58. Les Caisses populaires ont pris elles-mêmes les
11 moyens nécessaires pour organiser les cadres dont elles
12 avaient besoin, et elles en assument le coût.

13

14 Contributions annuelles

15 59. Les Caisses populaires se cotisent donc
16 annuellement pour permettre à leurs Unions régionales
17 et à leur Fédération provinciale de s'organiser un
18 secrétariat de de maintenir des services d'éducation,
19 de propagande, d'inspection, d'analyse et d'approbation
20 de placements, d'étude et de directives diverses. C'est
21 ainsi que durant l'année sociale 1961-62, les
22 Caisses populaires affiliées ont versé en contributions
23 la somme de \$1,398,305.23 qui a été utilisée comme suit:

24 Fonds de sécurité \$122,297.00

25 Unions régionales \$479,662.42

26 Fédération de Québec
27 des Unions régionales
28 des Caisses populaires
Desjardins \$796,345.81

29

30



1 Endroits privés de service bancaire

2 60. Malgré cette absence de contribution financière
3 de l'Etat fédéral et la subvention minime de l'Etat du
4 Québec, 668 des 1254 Caisses populaires affiliées étaient
5 établies dans des localités non desservies par une
6 succursale de banque. Dans ces 668 localités, il existait
7 cependant 68 agences de banques et 129 sous-agences, c'est-
8 à-dire des endroits organisés par les banques pour recue-
9 illir les dépôts, mais sans donner en retour un service
10 régulier de crédit dispensé à peu près exclusivement par
11 les succursales. Il y avait donc 471 Caisses populaires
12 dans des localités complètement privées de service bancaire.

13 61. Nombre de Caisses populaires ont été fondées
14 et opèrent dans des localités éloignées des centres, par-
15 fois même difficiles d'accès.

16 Exemple:

	Nombre de Caisses	Endroits où il y a une succur- sale de banque	Autres endroits où il y a une agence ou sous- agence de banque
20	Union régio- nale de l'Ouest- Québécois (Abitibi-Est, Abitibi-Ouest, Rouyn-Noranda)	38	5
21			2
22			
23	Union régio- nale de Gaspé a) Iles de la Madeleine	7	0
24	b) Gaspésie (Gaspé-Nord, Gaspé-Sud et Bonaventure)	40	7
25			1
26			5
27			
28	Côte Nord (a l'est de Sept-Îles, 500 milles au nord de Québec)	8	1
29			0
30		93	3



1 62. Une Caisse populaire a été fondée même chez les
2 Esquimaux de Povungnituk, au nord-est de la Baie d'Hudson.

3 63. L'organisation de Caisses populaires au bénéfice
4 de ces populations négligées par les entreprises capital-
5 istes qui n'y voient pas leur profit ou qui le trouvent en
6 les exploitant est une contribution considérable qui allège
7 le fardeau de l'Etat. Le mouvement des Caisses populaires
8 lui-même s'est chargé des dépenses nécessaires pour donner
9 à ces populations un moyen démocratique d'amasser l'épargne
10 pour l'utiliser localement à des prêts destinés à des fins
11 productives et avantageuses.

12

13 Promotion de l'épargne

14 64. Les Caisses populaires ont organisé et maintenu
15 un service d'épargne efficace qui a permis d'accumuler
16 depuis 1961 une somme considérable d'épargnes; le solde
17 des épargnes dans les Caisses populaires affiliées excède
18 maintenant \$750,000,000. Ce travail d'éducation et de
19 promotion populaire s'est fait selon divers moyens que
20 nous décrirons brièvement.

21

22 Caisses scolaires

23 65. Dès la fondation de la Caisse populaire de
24 Lévis, Monsieur Desjardins avait organisé l'épargne du
25 sou. Les Caisses populaires ont maintenu cette tradition
26 avec d'heureux résultats. Au cours des années, le fonc-
27 tionnement des Caisses scolaires s'est modifié, mais l'esprit
28 qui l'anime reste le même: enseigner aux écoliers la
29 nécessité de l'économie et de l'épargne.

30 66. 368,240 élèves avaient un montant de \$7,245,000.



1 en épargnes scolaires, au 31 décembre 1962. Environ
2 650 Caisses populaires dans la province opèrent des
3 Caisses scolaires dans près de 2,000 écoles.

4

5 Education professionnelle et administrative

6 67. Un des buts de la Caisse populaire est de
7 "répandre parmi ses membres la connaissance pratique des
8 principes élémentaires de la science économique". En en-
9 seignant aux sociétaires la pratique de l'épargne, on leur
10 apprend en même temps à apprécier l'argent et à juger le
11 bon usage que l'on peut en faire dans son intérêt et
12 dans celui de la nation. De même, par sa politique
13 de prêts populaires pour des fins productives et avant-
14 ageuses, la Caisse populaire favorise le désendettement de
15 ses sociétaires pour en faire éventuellement des éparg-
16 ants. Mais, c'est surtout au niveau du conseil d'admini-
17 stration, de la commission de crédit et du conseil de
18 surveillance que cette formation est plus marquante.
19 Chaque Caisse populaire est une coopérative distincte
20 ayant son propre conseil d'administration, qui est composé
21 d'au moins cinq (5) administrateurs, une commission de
22 crédit et un conseil de surveillance de trois (3)
23 membres chacun, ce qui fait au moins onze (11) dirigeants
24 par Caisse populaire. Comme plusieurs conseils d'admin-
25 istration ont 7, 9 et parfois un plus grand nombre
26 d'administrateurs, on peut affirmer que près de 20,000
27 dirigeants participent à la direction des Caisses pop-
28 ulaires locales, des Unions et Caisses régionales et de
29 la Fédération de Québec des Unions régionales des Caisses
30 populaires Desjardins.



1 68. Ces personnes s'initient à l'administration
2 de la Caisse, apprennent à interpréter des états finan-
3 ciers et à apprécier les prêts et les placements,
4 etc. Tous ces renseignements qu'ils puisent à la Caisse
5 populaire leur servent ensuite personnellement dans l'exer-
6 cice de leur métier, de leur profession ou de leur commerce,
7 et ils peuvent en faire bénéficier leur milieu.

8

9 Service d'éducation et de propagande

10 69. Les Unions régionales, sous la direction générale
11 de la Fédération, maintiennent un service d'éducation et
12 de propagande. En plus de préparer la fondation de nouvelles
13 Caisse populaires, ce service assure l'éducation coopér-
14 ative aux dirigeants et aux sociétaires. Parmi les
15 moyens utilisés, mentionnons les comités d'éducation et
16 de propagande, les conférences d'information et les cours
17 de gestion, les rencontres de présidents et de gérants,
18 les réunions diocésaines ou congrès régionaux, etc.

19 70. Le mouvement possède aussi un périodique: "La
20 Revue Desjardins" à l'usage des dirigeants, le journal
21 populaire "Ma Caisse", destiné aux sociétaires.

22 71. Des publications diverses, des feuillets, etc.
23 sont également mis en circulation afin de mieux renseigner
24 les sociétaires et la population en général sur les
25 Caisse populaires et les services qu'elles rendent.

26

27 Cours de perfectionnement et d'information

28 72. Les Caisse populaires ont organisé il y a
29 quelques années des cours périodiques de perfectionnement
30 et d'administration pour les dirigeants, les gérants et



1 les employés des cadres supérieurs du mouvement.
2 73. Les employés débutants, en groupes de 40 environ,
3 sont aussi invités à suivre des cours de formation tech-
4 nique. Les employés plus expérimentés, classés en diverses
5 catégories, peuvent suivre les cours de spécialisation
6 en vue d'une formation. Les gérants eux-mêmes, par petits
7 groupes, ont l'occasion de rencontrer des économistes, des
8 professeurs de diverses disciplines, durant une fin de
9 semaine. Ils peuvent ainsi se pénétrer de la doctrine
10 coopérative et bénéficier de l'expérience des autres. Ce
11 travail préliminaire a préparé la voie à la création d'une
12 véritable école de formation professionnelle.
13

14 Institut Desjardins

15 74. Les cours donnés dans différents centres de la pro-
16 vince ont pris une telle importance que le mouvement a
17 décidé récemment de créer un centre coopératif de form-
18 ation professionnelle sous le nom de l'Institut Desjardins.

19 75. L'expérience acquise par les professionnels de
20 l'éducation des adultes et les recherches en pédagogie
21 appliquée à l'entraînement du personnel des Caisses pop-
22 ulaires ont amené le mouvement Desjardins à concevoir un
23 projet unique en son genre au Canada français. Sur le
24 campus de la Cité Des Jardins, à Lévis, sera donc aménagé
25 un centre de formation professionnelle dans un cadre
26 résidentiel, susceptible d'accueillir des groupes de
27 quarante à cinquante stagiaires.
28

29 Programmes éducatifs de télévision et de radio

30 76. On n'a pas fini de citer, tant dans les milieux



1 d'éducation populaire que dans le monde de la publicité,
2 l'exemple de la collaboration qui existe depuis bientôt
3 cinq ans entre le service des émissions éducatives et d'affaires
4 publiques de Radio-Canada d'une part, et l'Assurance-Vie Desjardins et les Caisse populaires, d'autre part.
5 Ce programme de télévision fut une réussite incontestable;
6 réussite des commanditaires dont l'initiative a dû paraître
7 au début fort hasardeuse; réussite qui a ainsi popularisé
8 une formule d'émission dans laquelle l'on faisait souvent
9 appel à l'opinion de l'homme de la rue et où on laissait
10 la vedette aux citoyens mêmes qui vivaient les problèmes
11 à l'étude.

13 77. La série d'émissions télévisées "Joindre les deux
14 bouts" a retenu un auditoire d'un million et demi de personnes,
15 chiffre record pour les émissions du genre. Le programme connu sous le nom de "Droit de Cité", consacré
16 à l'administration publique des municipalités et des commissions scolaires, a remplacé "Joindre les deux bouts".

19 78. Les Caisse populaires Desjardins et l'Assurance-Vie Desjardins commanditent aussi depuis quelques années un programme populaire sur tout le réseau français de Radio-Canada, connu sous le nom de "Fête au Village".

24 Combat de l'usure

25 79. Les Caisse populaires se sont avérées les armes les plus efficaces contre l'usure favorisée de nos jours par un système compliqué de ventes à crédit et de petits prêts à taux d'intérêt prohibitifs.

29 80. Les chiffres suivants soulignent l'importance des prêts consentis en nombre et en valeur.



1	<u>Année</u>	<u>Reconnaisances de dette</u>		<u>Hypothèques</u>	
2	<u>sociale</u>	<u>Nombre</u>	<u>Montant</u>	<u>Nombre</u>	<u>Montant</u>
3	1958	93,479	\$ 48,567,100.	18,055	\$ 66,832,471.
4	1959	101,326	56,565.201	21,459	84,763,047.
5	1960	103,824	59,617.073	17,637	64,993.017.
6	1961	115,593	72,051.631	20,588	80,570,730.

7 81. En 1961, les prêts sur reconnaissance de dette
8 étaient répartis comme suit:

9		<u>Nombre</u>	<u>Montant</u>
10	Moins de \$100.	11,747	\$ 595,596.
11	\$100. à \$199.99	16,818	2,225,754.
12	\$200. à \$499.99	37,631	11,555,796.
13	\$500. à \$999.99	29,400	18,299,358.
14	\$1,000. à \$4,999.99	18,340	25,024,677.
15	\$5,000. et plus	1,657	14,350,450.
16	Total:	<u>115,593</u>	<u>\$ 72,051,631</u>

18 82. Le gouvernement fédéral a dépensé des sommes
19 considérables et a retenu l'attention des députés et des
20 sénateurs durant de longues séances, à peu près chaque
21 année depuis très longtemps, pour chercher des moyens
22 efficaces de combattre les prêts à taux d'intérêt exorbitant.
23 Des législations ont été mises en vigueur qui se
24 sont avérées, règle générale, inefficaces dans la pratique;
25 les vendeurs à crédit et les prêteurs trouvent
26 toujours moyen de contourner la loi.

27 83. Les Caisses populaires ont fait un travail considérable
28 d'assainissement dans le domaine des petits prêts et
29 du prêt sur l'habitation. Les taux d'intérêt et les
30 conditions faciles de remboursement sont à la portée des



1 petites gens. Les excédents nets des bénéfices, le cas
2 échéant, sur les dépenses leur sont remis sous forme de
3 ristourne.

4 84. Non seulement les Caisses populaires ne retirent
5 aucun avantage du gouvernement fédéral, mais par leurs
6 activités, celles de leurs dirigeants et de leurs sociét-
7 aires, elles enrichissent la population, que devient plus
8 en mesure de supporter les taxes et d'accroître l'activité
9 économique du pays.

10 85. Et c'est ainsi que se sont établies des succur-
11 sales de banques à des endroits où il n'y en avait pas,
12 parce que les Caisses populaires y avaient jeté une
13 semence depuis quelques années en contribuant au dévellope-
14 ment économique de ces milieux. Ce phénomène se reproduira
15 grâce au travail de pionnier fait gratuitement par les
16 sociétaires de Caisses populaires et les dirigeants de ce
17 mouvement.

18

19 Services gratuits aux gouvernements
20 fédéral et provincial

21 86. Il convient de signaler d'autres services que
22 les Caisses populaires ont rendus et rendent bénévolement
23 aux Etats fédéral et provincial bien qu'ils soient coûteux
24 aux Caisses populaires. Nous voulons mentionner l'encais-
25 sement sans frais des chèques des deux gouvernements qui
26 n'ont pas de dépôt dans les Caisses populaires alors qu'ils
27 en maintiennent dans les banques. Les Caisses populaires
28 doivent donc supporter le débit flottant à partir du moment
29 où le chèque est payé ou crédité au sociétaire jusqu'au
30 jour de son encaissement à une banque à charte.



1 Inversement, les ordres de paiement tirés sur les Caisses
2 populaires et payables à l'ordre des gouvernements fédéral
3 et provincial, étant déposés dans les banques à charte,
4 prolongent les délais de compensation et accroissent le
5 débit flottant des Caisses populaires de plusieurs millions
6 de dollars, sans compter un déboursé en commissions de \$550,
7 000. par année.

8 87. Les Caisses populaires ont contribué, comme toutes
9 les autres institutions financières, à la vente des
10 obligations d'épargne du Canada, mais elles sont traitées
11 en parents pauvres puisqu'elles doivent payer les obligations
12 avant de pouvoir en faire la vente à leurs sociétaires,
13 alors que les banques reçoivent les obligations en consigna-
14 tion. Le même traitement défavorable est imposé pour
15 les encaissements d'obligations d'épargne et de coupons,
16 dont les Caisses populaires supportent le débit flottant.

17

18 III - CONCLUSIONS

19 88. Le rapport de la commission d'enquête sur les
20 coopératives publié en 1945 contient l'affirmation que
21 les Caisses populaires encouragent "les personnes aux
22 ressources modestes" "à acquérir l'habitude d'économiser".
23 Le rapport note aussi que la Caisse populaire "assure
24 un service à ceux qui ne pourraient obtenir aucun service
25 de crédit d'autres institutions de prêt, ou qui ne pourraient
26 en obtenir qu'à des taux plus forts à cause des risques
27 du jeu." L'affirmation que "La Caisse populaire fournit
28 à ses membres les moyens et stimulants pour régler leurs
29 problèmes eux-mêmes plutôt qu'en comptant sur l'aide de

30



1 l'Etat dans les périodes de crise ou de stagnation" semble
2 concluante.

3 89. Le rapport ajoute: "Nous sommes convaincus que
4 les Caisses populaires remplissent un rôle très utile en
5 aidant les personnes qui ne peuvent profiter efficacement
6 des facilités d'épargne et de crédit offertes par les
7 autres institutions de prêts. Nous sommes aussi convain-
8 cus que les Caisses populaires ne supplantent pas un autre
9 genre d'entreprise commerciale, si ce n'est qu'elles
10 fournissent une autre source de prêts dans un domaine
11 où les prêteurs d'argent ou les institutions de prêt
12 n'offrent pas de facilités de crédit semblables à des taux
13 net comparables. Il est donc évident que ces Caisses
14 complètent utilement les autres institutions de prêt et
15 que leur essor continu est à désirer au point de vue de
16 l'intérêt public."

17 90. "Les Caisses populaires distribuent à leurs
18 adhérents une très forte proportion de leurs excédents
19 de recettes. Cependant, il arrive parfois qu'elles
20 retiennent des sommes qui paraissent, à la lumière de
21 l'expérience, plus considérables qu'il n'est nécessaire
22 pour les réserves contre les prêts douteux et les pertes.
23 Si elles devaient être taxées suivant les méthodes que nous
24 avons recommandées pour les sociétés coopératives, les
25 additions à ces réserves excédentaires seraient assujetties
26 à l'impôt. Toutefois, les sommes particulières qui
27 seraient imposées seraient très souvent, très faibles. De
28 plus, nous estimons qu'il n'est pas à propos de décourager
29 l'accumulation de réserves en vue de protéger les épargnes
30 des membres qui touchent pour la plupart des revenus



1 faibles ou très modérés."

2 91. Et enfin, "On a soutenu, et à bon droit, que les
3 dividendes sur les actions retirables étaient semblables
4 aux versements d'intérêt sur les dépôts bancaires et
5 ne devraient pas, par conséquent, être déduisibles à la
6 source."

7 92. Voilà pourquoi la Commission d'Enquête sur les
8 Coopératives de 1945 a recommandé:

9 1 - "Que le revenu des coopératives de crédit ou
10 Caisses populaires continue à être exempté d'impôt en
11 vertu de l'article 4, alinéa (a) de la Loi de l'impôt de
12 guerre sur le revenu."

13 2 - "Que l'article 4 (q) de la Loi de l'impôt de
14 guerre sur le revenu soit modifié de façon à préciser:

15 a) qu'il embrasse les fédérations dont les
16 membres peuvent comprendre d'autres Caisses populaires,
17 associations coopératives, paroisses, arrondissements
18 scolaires et autres organismes semblables.

19 b) que les associations exceptées sous le
20 régime dudit article doivent tirer d'abord leurs recettes
21 de prêts effectués en premier lieu aux membres."

22 93. Le gouvernement canadien a d'ailleurs sanctionné
23 ces recommandations en les incorporant dans la Loi de l'impôt
24 sur le revenu - Chapitre 148 - Partie I - Statuts Révisés du
25 Canada 1952:

26 "Article 62 - Aucun impôt n'est exigible en vertu de la
27 présente Partie sur le revenu imposable d'une personne pour
28 la période où cette personne était . . .

29 (k) une corporation ou association constituée
30 ou organisée comme caisse populaire ou société coopérative



1 "de crédit si

2 " (i) elle était restreinte à exercer ses opérations
3 "dans une seule province et tirait son revenu principale-
4 "ment de prêts effectués à des membres résidant dans cette
5 "Province, ou d'obligations émises, ou garanties par le
6 "gouvernement du Canada ou d'une province, ou,

7 " (ii) ses membres étaient des corporations ou
8 "associations.

9 " A) constituées ou organisées comme caisses
10 "populaires dont sensiblement la totalité ont surtout tiré
11 "leurs revenus de prêts consentis aux membres ou d'oblig-
12 "ations émises ou garanties par le gouvernement du Canada
13 "ou d'une province,

14 " B) constituées, organisées ou enregistrées
15 "sous le régime d'une législation coopérative provinciale,
16 "ou régies par ladite législation, ou"

17 94. Les Caisses populaires Desjardins, avons-nous rap-
18 pelé, s'emploient, par tous les moyens de persuasion à
19 leur disposition, à faire l'éducation économique et sociale
20 de leurs membres. Elles s'efforcent de rejoindre les
21 familles afin de les aider à se bien administrer, à vivre
22 selon leurs moyens, dans la sécurité. Elles veulent les
23 protéger contre les abus du crédit à la consommation qui
24 causent la ruine de tant de foyers. Elles les incitent
25 à faire des épargnes, source du capital nécessaire aux in-
26 vestissements requis tant pour le développement de notre
27 économie que pour le maintien de notre autonomie politique.

28 95. Les Caisses populaires contribuent donc pour
29 leur part à la prospérité et à la santé de l'économie canad-
30 ienne. En enseignant à leurs membres un usage modéré et



1 rationnel du crédit et en gardant toujours ce crédit pop-
2 ulaire lié à l'épargne populaire et fonction de celle-ci,
3 les Caisses populaires contribuent à régulariser la
4 consommation et à diminuer les périodes de chômage
5 résultant d'une surproduction attribuable à un pouvoir
6 d'achat mal utilisé et à un abus massif du crédit.

7 96. Les Caisses populaires sont un puissant facteur
8 de progrès et de stabilité économiques des familles et
9 de la nation. Quoi d'étonnant que les milliers de
10 citoyens qui les administrent s'y dévouent sans recevoir
11 aucune rémunération. Ils sont pleinement conscients qu'ils
12 font une œuvre magnifique de bien commun dont tous et
13 chacun bénéficient; ils sont heureux, c'est là leur salaire,
14 de participer au bien-être des foyers et à la prospérité
15 de leur pays.

16

17 * * * * *

18

19

20

21

22

23 NOTE: Des statistiques complètes ont été fournies à l'ap-
24 pendice du mémoire de la Fédération de Québec des
25 Unions régionales des Caisses populaires Desjar-
26 dins à la Commission Royale d'Enquête sur le
27 Système Bancaire et Financier. Vous devriez
28 pouvoir consulter cette documentation si
29 nécessaire.

30



1 A PRELIMINARY STUDY SUBMITTED TO THE

2 ROYAL COMMISSION ON TAXATION

3 CREDENTIALS

4 1. The Chambre de commerce du district de Montréal

5 is a body comprising over three thousand members and about
6 four hundred companies.

7 2. The principal aim of the Chamber of Commerce is
8 generally to promote the civic, social and economic welfare
9 of French-Canadians and of the citizens of Montreal in
10 particular.

11 3. The Chamber of Commerce has, for many years,
12 formed a Taxation Committee, which has reported on the
13 incidence of taxation on the social and economic life of
14 our citizens.

15 4. This year, the Committee has met over thirty times
16 in order to draft the paper submitted to the Charter Commis-
17 sion.

18 5. The Committee has read a number of papers on the
19 subject of taxation and has invited several economists to
20 speak about specific problems.

21 6. Membership of the Committee was as follows:

22 René Lemire President of the Committee

23 Marcel Camirand Committee Reporter

24 Jean-Claude Bertrand Accountant

25 Jérôme Carriere, C.A.

26 Jean Casgrain, Q.C.

27 Miss Micheline Corbeil Lawyer

28 Bruno Cyr Lawyer

29 Paul d'E. Clément, A.P.A.

30 Sylvio de Courcy, C.A.



1 1 Jean-Marie Duhamel, C.P.A.

2 2 A. Maurice Duval, C.A.

3 3 Maurice Forest, C.A.

4 4 Hervé Forget, C.A.

5 5 Georges Grondin

6 6 Robert Jacques, C.A.

7 7 Jacques LaRivière

8 8 Eucher Lefebvre, A.P.A.

9 9 Henri-Paul Lemay, Q.C.

10 10 Maurice Martel Lawyer

11 11 D.A. Ménard, C.A.

12 12 Maurice Messier, C.A.

13 13 Paul Galt Michaud Lawyer

14 14 Raymond Morcel

15 15 Charles McLaughlin, C.A.

16 16 Paul Noiseur, C.A.

17 17 Yvon Normandin, C.A.

18 18 Jean-Marc Poulin Lawyer

19 19 Maurice Richard, C.A.

20 20 Jean-Guy Rousseau, C.A.

21 21 Marcel St-Denis, C.A.

22 22 Guy Vary, C.A.

23 23 Jean Zalloni, C.A.

24 24 7. The members of the Committee drafted a preliminary paper which was submitted to the Chamber's Board of Directors and accepted by them.

25 25 8. This paper now reflects the official opinion of the Chamber of Commerce.

26 26 9. At a later date, the Chamber of Commerce may, if 30 30 it deems it necessary, submit a more detailed paper in



1 order to develop certain opinions set forth in the present
2 draft.

3 PREAMBLE

4 First principle: The constitutional context

5 The powers and responsibilities of the Federal
6 and of the Provincial Governments are defined in the
7 British North America Act.

8 The Federal Government has the power to tax.
9 The Provincial Governments have this power also in line
10 with their responsibilities. During the post-war period,
11 the Federal Government tended to collect taxes for activi-
12 ties which were not within its jurisdiction. This move by
13 the Government has been much discussed; it has been justi-
14 fied by some and blamed by others, but the fact remains and
15 must be admitted.

16 Having large sums of money at its disposal, the
17 Federal Government has distributed largesse by means of all
18 kinds of joint programs and subsidies.

19 In the light of these circumstances, the Chamber
20 of Commerce feels that there should be a new basis of tax
21 sharing between the Federal Government and the Provinces,
22 which would take into account the responsibilities of each.

23 As a corollary, the Chamber of Commerce recognizes
24 that it is necessary to subsidize the less favoured provinces.
25 However, the subsidies must be based on some equalization
26 formula.

27 The delicate problem of determining just how far
28 the subsidies should go arises at this point. Should an
29 independent commission be made responsible for the equaliza-
30 tion formula? Should not basic services be the only ones



1 taken into account? Should the subsidies not be kept to a
2 minimum?

3 The Chamber of Commerce is examining these ques-
4 tions at present and it will be in a position to submit a
5 paper later.

6 Another principle should be stated here: under
7 such a system, the Federal Government should not, either
8 directly or indirectly, oblige the provinces to use the
9 subsidies for specific purposes.

10 Provinces should be free to use equalization
11 payments in the manner they think best.

12 Second principle: the different legal system

13 The legal system in the Province of Quebec is not
14 the same as that of the other provinces.

15 It follows that it is essential that federal tax
16 laws should take Quebec's civil law into account, otherwise
17 they may be unfair to a large section of the Canadian popu-
18 lation.

19 The fact is that, in the past, the co-existence
20 of the two legal systems has not been taken into considera-
21 tion.

22 Many examples could be quoted to show how certain
23 citizens have been penalized because the operation of the
24 French civil law had been overlooked. The Quebec taxpayer,
25 for instance, is penalized under the provisions of the gift
26 tax, and in transactions between husband and wife. This
27 incredible situation is most unsatisfactory.

28 The incidence of death duties is also closely
29 related to the legal system.



1 Third principle: Choice of the methods of taxation

2 Under the Commission's terms of reference, it is
3 called upon to review the tax structure in ways consistent
4 with the maintenance of the present flow of federal revenue.

5 This condition will be borne in mind in the
6 following pages. Whenever a suggestion is made which would
7 tend to reduce revenue, compensation will be sought in other
8 fields.

9 Having made this clear, we now put forward
10 another major principle:

11 "This Chamber of Commerce is of the opinion
12 that emphasis should be placed on consumer
13 (indirect) taxes, rather than on producer
14 (direct) taxes."

15 As we examine each of these forms of taxation,
16 we shall suggest how this principle can be applied.

17 DIRECT AND INDIRECT TAXATION

18 A. Direct Taxes

19 Having divided the various taxes into two broad
20 categories, direct and indirect, we shall examine each
21 individually. Under the heading direct taxes, we shall
22 first examine personal income tax and then corporation
23 taxes.

24 (1) Personal Income Tax

25 We shall consider two aspects of personal income
26 tax: equity and its economic consequences.

27 (a) Equity

28 Fourth principle: subsistence level

29 With regard to personal income tax, the Chamber
30 of Commerce is of the opinion that a sound taxation policy



1 should be based on the following principle:

2 "Personal income tax should not be levied on
3 income necessary for the subsistence of the
4 taxpayer and of his family."

5 To achieve this object, the Chamber of Commerce
6 recommends that basic exemptions should be set so as to
7 safeguard this minimum income.

8 Fifth principle: income above subsistence level

9 1. With regard to income above the subsistence level,
10 the Chamber of Commerce has examined, among others, four
11 possible alternatives:

- 12 - retain the graduated scale
- 13 - retain the graduated scale, with a maximum
- 14 rate of 50%
- 15 - apply a single rate, and increase the exemp-
- 16 tions
- 17 - use a two-tier tax system, with a minimum
- 18 rate applying immediately above the subsistence
- 19 level, followed by an average rate.

20 2. The Chamber of Commerce is of the opinion that
21 the graduated scale should be maintained, because the burden
22 of taxation is thus more equitably spread.

23 3. But it does not seem equitable that a taxpayer
24 should be called upon to pay more than 50% of his income
25 in taxes. Such taxation discourages enterprise.

26 (b) Economic consequences

27 Sixth and seventh principles

28 The Chamber of Commerce recognizes that one of
29 the most important economic aims of taxation should be to
30 encourage the formation of Canadian capital. In order to



1 achieve this objective, steps can be taken with regard to
2 dividends and capital gains.

3 (1) Dividends

4 In this field, the Chamber of Commerce suggests
5 two alternatives:

6 (a) Considerable reduction of the taxes paid by
7 persons resident in Canada on dividends paid by
8 taxable Canadian corporations. Such a step
9 would:

10 - Promote investment in Canadian companies
11 - Simplify enforcement to a significant extent.
12 (b) Removal of the tax paid by persons resident
13 in Canada on dividends paid by taxable Canadian
14 corporations. This would discourage tax evasion,
15 but might prove unfair to certain groups of tax-
16 payers. It would therefore be necessary to
17 consider amendments in other fields of taxation.

18 (2) Capital gains

19 The Chamber of Commerce is of the opinion that
20 the policy of not taxing capital gains should
21 be continued.

22 (2) Corporation Tax

23 First problem: A standard tax - Eighth principle

24 (a) In the view of the Chamber of Commerce,
25 corporation taxes are too high. A start
26 should be made on reducing these taxes.

27 At this point, a distinction should be drawn
28 between two types of business:

29 - monopolies in the hands of one or of several
30 firms



1 - businesses in open competition

2 Assuming a single standard rate of tax, monopolies
3 will tend to pass on most of the tax to the consumer.

4 In the case of open competition, only part of the
5 tax will be thus passed on. The standard rate, which is
6 easy to apply, is unfavourable to businesses in open compe-
7 tition.

8 To the extent to which it is passed on to the
9 consumer, the tax is a hidden sales tax.

10 It is a bad tax, because the consumer pays it on
11 all products indiscriminately. In the case of foodstuffs,
12 for instance, it penalizes efficient producers and hinders
13 exports by increasing the price of the goods.

14 (b) The Chamber of Commerce views with favour all
15 measures which promote the well-being of industry.

16 Second problem: Small and medium-sized businesses

17 A high rate of taxation prevents small and medium-
18 sized businesses from accumulating capital to enable them
19 to compete with big business.

20 The Chamber of Commerce feels that it is very
21 necessary to allow small and medium-sized businesses to
22 accumulate capital.

23 From this angle, the single standard rate raises
24 a problem. Means should be found to enable small and
25 medium-sized businesses to retain the privileges they have
26 already acquired.

27 (3) Death duties - Ninth principle

28 The Chamber of Commerce recommends that federal
29 death and gift taxes should be abolished.

30 These taxes, which provide very little revenue



1 for the Federal Government, affects property rights more
2 than any other tax. For this reason, death duties and
3 duties on gifts should be left to the provinces.

4 B. Indirect taxes

5 We shall now examine indirect taxes: sales taxes,
6 excise and customs duties.

7 (a) Sales tax

8 Earlier in this paper, we stated that a loss of
9 revenue in one field should be compensated by increased
10 revenue in another. We feel that the sales tax is an
11 important source of revenue.

12 (1) Tenth principle

13 The Chamber of Commerce recommends that the sales
14 tax now levied at the manufacturer's level should be
15 replaced by a sales tax at the retailer's level.

16 The tax would thus be brought very close to the
17 consumer.

- 18 - It would interfere less with price structure
- 19 - It would be more easily enforced than a tax
- 20 on the manufacturer
- 21 - It would eliminate notional sales prices
- 22 - It would bring home to the consumer the amount
- 23 of tax that he is called upon to pay.

24 (2) The collection of taxes

25 The Chamber of Commerce is of the opinion that a
26 double system of tax collection is a complication which
27 adds to the costs which the taxpayer has to bear.

28 Overlapping should be avoided, without infringing
29 however, on individual rights.



1 (b) Excise Duty - Eleventh principle

2 The Chamber of Commerce recognizes that certain
3 excise duties are justified, in as far as they do not
4 affect the use of essential goods.

5 From the standpoint of political economy, such
6 taxes are necessary in order to provide revenue from the
7 luxury trade.

8 (c) Customs duties

9 The Chamber of Commerce feels that customs duties
10 also tie in very closely with the national economic policy
11 and that they are therefore justified in certain circum-
12 stances.

13 They may be very useful in international trade as
14 a means of influencing the balance of payments. Their use
15 will depend on whether the national policy is one of free
16 trade or of protectionism.

17 April 19th, 1963.

18

19

20

21

22

23

24

25

26

27

28

29

30

ROYAL COMMISSION
ON
TAXATION
HEARINGS
HELD AT
MONTREAL
P. Q.

BRIEFS

VOLUME No.:

DATE

9A (April 26, 1963)

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO., LTD.
BOARD OF TRADE BLDG.
11 ADELAIDE ST. W.
TORONTO

364-5865 364-7383



ANGUS, STONEHOUSE & CO. LTD
TORONTO, ONTARIO

1

2

3

MEMORANDUM

4

5

6

to the

7

8

9

ROYAL COMMISSION ON TAXATION

10

11

12

by

13

14

15

Julius M. Scharing

16

17

18

19

20

21

APRIL 1963

22

23

24

25

26

27

28

29

30



1 Mr. Chairman and Members of the Commission:

2 As a taxpayer of Canada, I have had to make,
3 during the years, different applications of the tax laws
4 to calculate the proper amount of taxes to be paid to the
5 government as well as to consider the rights of a taxpayer
6 and the rights of the Minister of National Revenue as
7 laid down by the rules and regulations of the law.

8 I came to the conclusion from my experience in
9 filing tax returns and dealings with different departments
10 of the district taxation office that, in my opinion,
11 certain changes should be made in the tax laws. I want to
12 specify that these changes are concerned in respect of the
13 personal income tax by which most people are affected.

14 I received the news about the appointment of the
15 Royal Commission on Taxation with great interest and, I
16 appreciate having the opportunity to submit this memoran-
17 dum for your consideration and possible inclusion into
18 your recommendations for action by our government to
19 relieve some of the burden of our taxpayers and, by such
20 action, to better our economy.

21 My memorandum does not cover general overall
22 references to the income tax structure, it rather refers
23 to specific sections of the Act.

24 The proposed amendments, deletions and additions
25 referred to in this memorandum as to "Income Tax Act",
26 shall have the meaning as reference to the Income Tax Act,
27

28 Chapter 148 of R. S. C. 1952 as amended by
29 chapter 40 of the Statutes of 1952-53,
30 chapter 57 of the Statutes of 1953-54,



ANGUS STONEHOUSE & CO LTD
TORONTO ONTARIO

1 chapters 54 and 55 of the Statutes of 1955,
2 chapter 39 of the Statutes of 1956,
3 chapter 29 of the Statutes of 1957,
4 chapter 17 of the Statutes of 1957-58,
5 chapter 32 of the Statutes of 1958,
6 chapter 45 of the Statutes of 1959,
7 chapter 43 of the Statutes of 1960,
8 chapters 17 and 49 of the Statutes of 1960-61,
9 chapter 78 of the Statutes of 1962,
10 An Act respecting Income Taxes.

11 I assume that the costs of living is considered
12 for establishing the basic deductions of a taxpayer and
13 his dependants from his personal income.

14 Whereas the cost of living went up considerably
15 during the last 20 years, especially in the basic commodities,
16 and earnings did not keep up with them proportionately and, the expenditures necessary for a proper living
17 taken under consideration for establishing the allowable
18 deductions under the Income Tax Act are, in my opinion,
19 too low and should be increased and,

21 Whereas the difference between the allowable
22 deduction for dependant children qualified and not qualified for family allowances is too great,

24 I, therefore, propose to change the Income Tax
25 Act as follows:-

26 1. Paragraph (a) of subsection (1) of section 26
27 of division C in respect of deduction of married status
28 and dependant children, the amount be increased from
29 \$2,000.00 to \$3,000.00.



1 2. Paragraph (b) of subsection (1) of section 26
2 of division C in respect of a single person, the amount
3 be increased from \$1000.00 to \$1500.00.

4 3. Paragraph (ba) of subsection (1) of section 26
5 of division C in respect of persons wholly dependant
6 upon more than one taxpayer, the amount be increased
7 from \$1000.00 to \$1500.00.

8 4. Paragraph (c) of subsection (1) of section 26
9 of division C in respect of children, the amount be in-
10 creased from \$300.00 to \$700.00 if the child or grandchild
11 was a child qualified for family allowance and, from
12 \$550.00 to \$800.00 if the child or grandchild was not
13 so qualified.

14 5. Paragraph (d) of subsection (1) of section 26
15 of division C in respect of other dependants, the amount
16 be increased from \$300.00 to \$700.00 if the person was
17 a child qualified for family allowance, from \$550.00 to
18 \$600.00 if the person was qualified for old age pension
19 and, from \$550.00 to \$1000.00 if the person was not qual-
20 ified for old age pension.

21 6. Subection (2) of section 26 of division C in
22 respect of limitation on deduction of spouse, the amounts
23 be increased from \$250.00 and not exceeding \$1250.00 to
24 \$500.00 and not exceeding \$1500.00 and the deduction
25 allowed from \$2000.00 to \$3000.00.

26 7. Subparagraph (ii) of paragraph (a) of subsection
27 (5a) of section 26 of division C in respect of additional
28 limitation, the amount be increased from \$1000.00 to
29 \$1500.00.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1 Subsection (6) of section 26 of division C in
2 respect of partial dependency, the amount be increased
3 from \$300.00 or \$550.00 to \$700.00 or \$600.00 or \$1000.00,
4 as the case may be.

5 Whereas the cost of medical care and necessary
6 expenditures to keep healthy are quite an expense to our
7 citizens and are not sufficiently considered in the Act
8 and, as long as we have no federal health insurance in
9 Canada to cover complete medical care and, our citizens
10 desire some protection against the financial burden of
11 sickness by other means of insurance,

12 I, therefore, propose to change the Income Tax
13 Act in this respect as follows:-

14 Paragraph (c) of subsection (1) of section 27
15 of division C in respect of deduction of medical expenses
16 of an amount equal to that portion in excess of 3% of the
17 taxpayer's income shall be repealed and substituted by
18 providing allowance for the deduction of all medical
19 expenses paid either by the taxpayer or his legal repre-
20 sentatives for the time and services specified in the
21 Income Tax Act and if payment of the expenses is proven
22 by filing receipts with the Minister.

23 If my proposed amendment under paragraph 9
24 above will not be adopted then I propose that subparagraphs
25 (iv) and (iva) and (v) of paragraph (c) of subsection
26 (1) of section 27 of division C in respect of allowance
27 for deductions.

28 (iv) as remuneration for one full-time attendant
29 upon or for the full-time care in a nursing home
30



1 of, the taxpayer, his spouse or any such dependant who was confined by reason of illness, injury or affliction to a bed or wheel chair,
2 (iva) for the full-time care in a nursing home
3 of any such dependant if the dependant is, and
4 has been certified by a qualified medical practitioner to be a person, who is and in the foreseeable future will continue to be dependant
5 on others for his personal needs and care,
6 (v) as remuneration for one full-time attendant
7 upon the taxpayer, his spouse or any such dependant who was totally blind at any time in
8 the taxation year and required the services of
9 an attendant,
10 (A) shall be deleted from this subsection,
11 (B) be made a separate section,
12 (C) the full amount of the expenses shall be
13 allowed for deductions.

14 11 If paragraph (c) of subsection (1) of section
15 27 of division C be amended as proposed under paragraph
16 9 on page 5 then paragraph (ca) of subsection (1) of
17 section 27 of division C in respect of the allowance of
18 a standard deduction of \$100.00 for medical expenses,
19 charitable donations and certain dues without filing
20 receipts with the Minister shall be repealed.

21 12 A new subsection shall be added to section 27
22 of division C as follows:

23 28 There may be deducted from the income for the
24 29 year premiums paid either by the taxpayer or his legal
30



1 representatives for sickness insurance, accident insurance,
2 hospital insurance to a recognized insurance company or
3 association authorized to such collections if payment
4 of the premiums is proven by filing receipts with the
5 Minister.

6 The present regulations stipulate that revenue
7 property is to be considered disposed of even if it is
8 used for living quarters of the owner's family and, the
9 previous allowable deductions of capital cost allowances
10 have to be recaptured and taxes paid on. I consider this
11 not to be justified because no income was derived from
12 the disposal,

13 I, therefore, propose that

14 13. A new sentence shall be added after paragraph
15 (a), (a) and subparagraph (ii) of paragraph (f) of sub-
16 section (6) of section 20 of division B of the Income
17 Tax Act as follows:-

18 Exemptions shall be made if the said property
19 is used as living quarters of the owner and his
20 immediate family (wife, husband and their children
21 and the parents and parents-in-law) and no
22 revenue is received by such use.

23 Whereas, in our society, we do not consider a
24 man guilty unless proven guilty, a taxpayer shall not
25 be compelled to pay taxes assessed by the Minister if he
26 considers they are not right and files an objection within
27 the 30-day time limit required to pay the assessed taxes,

28 I, therefore, propose that

29 14. Section 51 of division F of the Income Tax Act



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1 shall be amended

2 (A) by deletion of the last part of subsection

3 (1),

4 (B) addition of a new subsection (2),

5 (C) the present subsection (2) becoming subsection
6 (3).

7 The revised section would read as follows:-

8 51. (1) The taxpayer shall, within 30 days from
9 the mailing of the notice of assessment, pay to the
10 Receiver General of Canada any part of the assessed tax,
11 interest and penalties then remaining unpaid.

12 (2) Where a taxpayer files an objection to the
13 assessment or an appeal from the assessment is outstanding,
14 the 30-day limit specified in subsection (1) shall not
15 apply until a final decision is arrived at.

16 (3) Where, in the opinion of the Minister, a
17 taxpayer is attempting to avoid payment of taxes, the
18 Minister may direct that all taxes, penalties and interest
19 be paid forthwith upon assessment. 1948, c. 52, s.48.

20 Laws, rules and regulations are written some-
21 times in a way that they may be interpreted differently
22 by different persons, having as a result that omissions
23 or additions are made without bad intentions, or, a mistake
24 may be made sometimes. These facts apply also to the
25 income tax laws and, depending upon the work load of the
26 employees of the tax departments, it will lapse more or less
27 time until a taxpayer's return is re-checked and correc-
28 tions made, if necessary.

29 As a taxpayer shall not be penalized to pay
30



1 interest for such delays,

2 I, therefore, propose that

3 15. A new subsection be added to section 54 of
4 division F of the Income Tax Act as follows:-

5 Where a Notice of Assessment was sent to the
6 taxpayer and all taxes paid for the taxation year,
7 the taxpayer shall not be liable to pay interest
8 on any amount which shall arise out of a re-
9 assessment by sending a Notice of Re-Assessment
10 to the taxpayer, except, where, in the opinion
11 of the Minister, a taxpayer is attempting to
12 avoid payment of taxes.

13 Whereas the present Income Tax Act stipulates
14 certain rights applying to the Minister but not to the
15 taxpayer in the same matter where there should be equal
16 rights to both parties in the same matter,

17 I, therefore, propose that

18 16. A new subsection be added to section 51 of
19 division F of the Income Tax Act as follows:-

20 Where a taxpayer, after receiving the Notice
21 of Assessment, has still a balance of tax unpaid,
22 the taxpayer may, instead of making the payment,
23 request the Minister to apply the unpaid amount
24 to refunds on overpayments of other taxation
25 years if such shall be the case.

26 Note:- (A) This subsection would apply equally to tax
27 unpaid as subsection (2) of section 57 of
28 division F applies to refunds.

29 (B) If my proposed paragraph 16 will be adopted



1 then the order of the subsections of my proposed
2 amendment under paragraph 14 on pages 7 and 8
3 shall be changed. This paragraph 16 shall become
4 subsection (3) and subsection (3) shall become
5 subsection (4).

6 17. Subsection (3) of section 57 of division F of
7 the Income Tax Act in respect of interest paid at the
8 rate of 3% per annum on overpayments, the rate shall be
9 increased to 6% per annum.

10 Note:- The rate of 6% per annum in this subsection
11 would apply equally to refunds as subsection
12 (1) of section 54 of division F applies to the
13 rate of 6% per annum on tax unpaid.

14 18. If my proposed amendment under paragraph 17 on
15 page 10 in respect to the increase of the rate of interest
16 payable on overpayment from 3% to 6% will be adopted, then
17 subsection (3a) of section 57 of division F in respect of
18 6% interest applicable on overpayments decided by a decision
19 of the Tax Appeal Board, the Exchequer Court of Canada
20 or the Supreme Court of Canada shall be repealed because
21 it will be obsolete.

22 Whereas it would be unjustifiable for a taxpayer
23 to be charged a fee for an appeal if he would not be able
24 to pay such a fee, by which he will be prevented from
25 filing an appeal with the Tax Appeal Board,

26 I, therefore, propose

27 19. If a taxpayer files a notice of appeal with the
28 Tax Appeal Board, no fee shall be required to pay when
29 doing so.

30 Therefore, the present section 90 of division



1 I of the Income Tax Act in respect of paying a fee of \$15.00
2 upon filing a notice of appeal shall be repealed at its
3 present form and substituted by the following:-

4 90. No fee or fees shall be charged an appellant
5 upon filing a notice of appeal with the Tax
6 Appeal Board and no costs shall be awarded an
7 appellant on the disposition of the appeal.

8 Having dealt so far with changes and revisions
9 to the Income Tax Act affecting the tax structure itself,
10 I want further to mention some points in respect to the
11 administration connected with the procedure of the payment
12 of the income tax as well as with the Income Tax Return
13 Forms.

14 It is common in business transactions and agree-
15 ments that, conditions agreed upon, be made in writing for
16 the purpose that each party to such agreements will know
17 the conditions agreed upon and can make reference to them
18 when necessary. The same procedure should be followed by
19 the Department of National Revenue to eliminate unnecessary
20 arguments, difficulties and delays to the taxpayers as
21 well as to the employees of the Income Tax Division. This
22 procedure should be, in my opinion, specified in the
23 Income Tax Act.

24 I, therefore, propose

25 20. To add a new section to the Income Tax Act as
26 follows:-

27 27. Where a taxpayer is unable to pay all his taxes
28 on the due date and he or his legal representative arranges
29 to pay the balance of the tax or taxes by instalments, a
30



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO.

1 written agreement to this effect shall be sent to the
2 taxpayer by the Director of Income Tax or his represent-
3 ative of the respective District Taxation Office.
4

5 And whereas it is the practice of some district
6 taxation offices to consider a money order stub or a
7 cancelled cheque as a valid receipt and, the offices will
8 issue official receipts only upon request by the taxpayer,
9 this practice leaves the taxpayer in doubt if his payment
10 has been credited properly and, further, the taxpayer will
11 have quite some trouble if he would need necessary receipts
12 of tax payments in case of evidence of such payments. The
13 proof of payment by cancelled cheque will be further com-
14 plicated if the taxpayer would have moved to a different
15 place or province. I, therefore, propose

21 To add a new section to the Income Tax Act as
22 follows:-

23 The Director of Income Tax or his representative
24 of each district taxation office shall issue an official
25 receipt to each taxpayer for each payment of tax made
26 whether the tax or balance of tax is paid in full or by
27 instalments.

28 Finally, I want to make a remark with regard to
29 the Individual Income Tax Return Forms T1 Short as well
30 as T1 General.

31 We all know what these forms look like, having
32 used one or the other form several times and, one or the
33 other time have struggled to squeeze the necessary answers
34 into the little spaces provided after some of the questions.

35 I, therefore, propose,



1
2 22 To re-design the Individual Income Tax Return
3 Forms, T1 Short and T1 General, of which a form of each
4 is attached to this memorandum, by making the T1 Short
5 form either larger or adding another page to it and to the
6 T1 General adding another page, allowing more space or
7 spaces for answers to the following questions:-

8 (1) Name of present employer
9 (2) Name and address on (last taxation year)

10 return:....Or.....

11 Income

12 (3) Names of all employers in (number of taxation
13 year)
14 (4) Explain if total months employed is less
15 than 12
16 (5) Alimony or separation allowance paid to
17 (6) Other deductions
18 (7) Annual union, professional or like dues
19 paid to Claim for Personal Exemptions
20 (8) Name of child
21 (9) Relationship to you (of child)
22 (10) If over 21 state school attended or whether
23 infirm
24 (11) Dependant's Name and Address
25 (12) Relationship to you (of dependant)
26 (13) If over 21, state whether infirm.

27 In conclusion of my remarks, I want to make
28 also reference to the effects of these proposals in
29 respect to the finances of the taxpayer as well as of the
government.

30 If my proposals are accepted and included in the



ANGUS STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1 Income Tax Act, it will mean, first of all, a relief of
2 some of the tax burden to many persons and increase their
3 buying power. It will help the unfortunate persons who
4 have to take care of sickness, hospitalisation and other
5 requirements to be or to stay healthy as well as to our
6 old and infirm people. It will give equal rights in certain
7 matters to the taxpayers and the Minister, which, as I
8 pointed out in this memorandum, is not the case at present.
9 It may prevent, in some instances, difficulties in the
10 application of some regulations of the Income Tax Act which
11 will effect a better understanding between the taxpayers,
12 the Minister and the employees of the Income Tax Division
13 of the Department of National Revenue.

14 As far as the government is concerned, the
15 revenues to the government will be somewhat less than they
16 are at the present time if my proposed changes will be
17 adopted and become law. However, to offset the loss to the
18 government by increasing the tax exemptions and by other
19 benefits, one part could be recovered from the savings
20 in the whole government administration as recommended by
21 the Glassco report on Government Administration and, the
22 other part would be recovered by increased returns of
23 income tax to the collected by the government from the
24 increase in buying power of those taxpayers who will pay
25 less tax, causing a bigger demand of goods which have to
26 be produced, causing an increase in the working force,
27 which will result in persons paying income tax who do not
28 pay now. The production of more goods will affect also the
29 collection of taxes by the government on more manufactured
30 goods.



ANGUS STONEHOUSE & CO LTD
TORONTO ONTARIO

1 Mr. Chairman and Members of the Commission, this
2 concludes my presentation to the Commission and, as I
3 remarked in my introduction, I hope that you will take my
4 proposals under your consideration and possible inclusion
5 into your recommendations for action by our government.

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

T1 SHORT
1962

CANADA

Individual Income Tax Return

• ONE SIGNED RETURN together with payment of balance of tax, if any, is to be mailed not later than 30th APRIL, 1963, to the TAXATION DATA CENTRE, P. O. BOX 456, OTTAWA 2, ONT.

FAMILY OR LAST NAME (Print)		CHRISTIAN OR FIRST NAMES (Print)		
Mr.	Miss			
PRESENT ADDRESS (Print)				
(Give complete mailing address, including City and Province)				
PROVINCE OF RESIDENCE ON 31st DECEMBER, 1962		DATE OF BIRTH		
SAME AS PRESENT ADDRESS <input type="checkbox"/> OR PROVINCE OF		(Day)	(Month)	(Year)
STATUS ON 31st DECEMBER, 1962				
<input type="checkbox"/> MARRIED CHRISTIAN OR FIRST NAMES OF WIFE (HUSBAND) <input type="checkbox"/> ADDRESS OF WIFE (HUSBAND): SAME AS ABOVE <input type="checkbox"/> OR <input type="checkbox"/> WIDOW(ER) <input type="checkbox"/> DIVORCED <input type="checkbox"/> SEPARATED <input type="checkbox"/> SINGLE				
NAME OF PRESENT EMPLOYER				
TYPE OF WORK OR POSITION IN 1962				
NAME AND ADDRESS ON 1961 RETURN: SAME AS ABOVE <input type="checkbox"/> OR				
IF YOU DID NOT RESIDE IN CANADA FOR 12 MONTHS IN 1962, GIVE DATE OF ENTRY _____ OR DEPARTURE _____				
(Immigrants and Emigrants—Refer to the Guide for information as to the calculation of your tax.)				

Salaries, Wages, Bonuses, Pensions

(Before Income Tax or Pension Deductions)

ATTACH COPY 1 OF T4 SLIPS
TO PAGE 2 OF RETURNNumber of
Months Employed

\$

Names of All Employers in 1962

Explain if the total months employed is less than 12

Taxable allowances received from employer

Taxable benefits received from employer

Tips, gratuities, casual earnings

Old Age Security Pension

Dividends from taxable Canadian corporations (attach list)

Interest (attach list)

Alimony or separation allowance received

Other income (specify)

TOTAL \$.

Registered pension plan contributions

Registered retirement savings plan

premiums—*Attack Receipts*

Alimony or separation allowance paid to

(Name and Address)

Other deductions (See Guide, and specify)

Total of above deductions

NET INCOME \$.

DEDUCT: Total Personal Exemptions (Complete Page 2) \$.

Medical Expenses, Donations, Dues

(See Guide)

Claim either A or B below (not both) \$.

A—Standard Deduction of \$100 (no receipts required)

B—Total of Allowable Amounts Below

Total medical receipts—*Attack List and Receipts* \$.

Less 3% of "NET INCOME"

Allowable portion of medical expenses \$.

Charitable Donations—*Attack Receipts* \$.

Annual union, professional or like

dues paid to (Name of organization)

TOTAL \$.

TAXABLE INCOME \$.

Calculation of Tax

FEDERAL Income Tax on taxable income

See "Rate of Federal Income Tax" in Guide \$.

Add: Tax Adjustments—(See Guide, and specify)

TOTAL INCOME TAX \$.

Less: Dividend Tax Credit—See Guide

\$ Amount of Credit

(Amount of Net Dividends) BASIC TAX \$.

Less: Federal Tax Abatement applicable to persons resident in any province on 31st December, 1962—16% of "BASIC TAX" \$.

FEDERAL INCOME TAX \$.

Add: Old Age Security Tax—3% of "TAXABLE INCOME" or \$90, whichever is less \$.

FEDERAL TAX PAYABLE \$.

Add: PROVINCIAL Income Tax for province of residence on 31st December, 1962, if other than Quebec \$.

(See Guide) TOTAL TAX PAYABLE \$.

Less:

Tax deducted per T4 slips \$.

Tax paid by instalments \$.

BALANCE—Enter in proper space below \$.

PAYMENT ATTACHED

BALANCE UNPAID

OR

REFUND CLAIMED

\$ \$ \$

PAYMENT—Any unpaid balance of tax is due not later than 30th April, 1963. Attach cheque (exchange not required) or money order made payable to the Receiver General of Canada. Do not mail cash. Postage stamps are not legal tender.

I HEREBY CERTIFY that the information given in this return and in any documents attached is true, correct and complete in every respect and fully discloses my income from all sources.

SIGN
HERE

Date 19 Telephone

It is a serious offence to make a false Income Tax Return

Form authorized and prescribed by the Minister of National Revenue

10

SEE GUIDE
You may be entitled to use the Tax Table and commence your tax calculation at the point indicated by the arrow.

Claim for Personal Exemptions

ALL SPECIFIED DETAILS MUST BE PROVIDED FOR EACH EXEMPTION CLAIMED.

- If this is wife's return, read "husband" for "wife".
- Income of your wife or dependants includes Old Age Security Pension or Assistance
- No claim may be made for a child or other dependant whose income in 1962 was over \$950, except as noted below.
- If you are claiming dependants who did not reside in Canada, complete and attach form TIE-NR, which is obtainable at any District Taxation Office.

BASIC EXEMPTION

Gram 1000 s

AGE EXEMPTION: If you were born in 1897 or earlier

Scan 1600

MARRIED OR EQUIVALENT EXEMPTION

If applicable, check and claim ONLY ONE of these *xx* items

Married on or before 31st December, 1962 and
 Supported in 1962 wife whose income in that year, while married, was NOT OVER \$250 - - - - - CLAIM \$1000
 Supported in 1962 wife whose income in that year, while married, was OVER \$250 - - - - - CLAIM \$1000

NOTE: If your wife's income while married was over \$1,250 in 1962, you may not claim either the married exemption above or the equivalent exemption below.

Single, Divorced, Separated or Widow(er) in 1962 and

Supported a wholly dependent child under age 21 or any age if infirm or in full-time attendance at a school or university
Complete "DETAILS OF DEFENDANT" space! and CLAIM \$1000

Supported a wholly dependent person related by blood, marriage or adoption and living in a dwelling maintained by you.
Complete "DETAILS OF DEFENDANT" space! and CLAIM \$1000

Supported, jointly with one or more other persons, in a dwelling maintained by you and such persons, a wholly dependent relative. (You may claim here ONLY if it has been agreed that no other person will claim for the same defendant or in respect of the same dwelling.)
Complete "DETAILS OF DEFENDANT" space! and CLAIM \$1000
Also, state the name and address of each other person who contributed to support:

An unmarried minister or clergyman in charge of a diocese, parish or congregation in 1962 who maintained a dwelling and employed therein a full-time servant CLAIM \$1000

† DETAILS OF DEPENDANT Name _____ Address _____
Income in 1962 * Relationship to you _____
If a child, state age and, if over 21, state school _____

EXEMPTION FOR WHOLLY DEPENDENT CHILDREN (including grandchildren)

Under age 21 or any age if in full-time attendance at a school or university or if infirm

Provide details of children wholly dependent upon you in 1962 and claim \$300 for each child "qualified for Family Allowances" (generally, any child under 16—see Guide) and \$550 for each child not so qualified. If any child under the age of 16 in December 1962 was not qualified for Family Allowances, state the reason.

EXEMPTION FOR OTHER DEPENDANTS—PARENTS, GRANDPARENTS, BROTHERS OR SISTERS (including in-laws)

Provide details below and claim actual amount spent in 1962 in support of each dependant (not exceeding the allowable maximum of \$300 if the dependant was qualified for Family Allowances or \$550 if the dependant was not so qualified) if any other person has also contributed to the support of a dependant listed here, the combined amount claimed by you and such other person must not exceed the maximum of \$300 or \$550 mentioned above. No claim may be made here for a dependant over age 21 who is not mentally or physically infirm, or for a dependant in respect of whom you have claimed an exemption of \$1,000.

Dependant's Name and Address	Relationship to you	Income in 1962	Age in 1962	Amount spent by you in support of dependant	If over 21, state whether in farm
		\$	\$		

TOTAL PERSONAL EXEMPTIONS - 5

* If it is to your advantage, you may claim an exemption for a child or other dependant whose income in 1962 exceeded \$950 but the amount by which such income exceeded \$950 must then be added to your own tax as a Tax Adjustment on Page 1.



T1 GENERAL

1962

See

T1 General Information Sheet

or

Farmer's and Fisherman's Guide

Individual Income Tax Return

FOR USE BY INDIVIDUALS:

- In Business as Proprietors or Partners, including Farmers and Fishermen
- Receiving Professional Fees, Commissions or Rents
- With Investment Income over \$2,500
- Claiming Foreign Tax Credits or Capital Cost Allowance

ONE SIGNED RETURN together with payment of balance of tax, if any, is to be mailed not later than 30th April, 1963, to the TAXATION DATA CENTRE, P.O. BOX 456, OTTAWA 2, ONT.

FAMILY OR LAST NAME (PAINT)		CHRISTIAN OR FIRST NAMES (PAINT)	
Mr.			
Mrs.			
Miss			
PRESENT ADDRESS (PAINT)			
(GIVE COMPLETE ADDRESS, INCLUDING CITY AND PROVINCE)			
MAILING ADDRESS (if different from above)			
PROVINCE OF RESIDENCE ON 31st DECEMBER 1962: SAME AS PRESENT ADDRESS <input type="checkbox"/> OR PROVINCE OF			
DATE OF BIRTH (Day) (Month) (Year)			
STATUS ON 31st DECEMBER, 1962			
<input type="checkbox"/> MARRIED { CHRISTIAN OR FIRST NAMES OF WIFE (HUSBAND) _____			
<input type="checkbox"/> ADDRESS OF WIFE (HUSBAND): SAME AS ABOVE <input type="checkbox"/> OR			
<input type="checkbox"/> WIDOW(ER)		<input type="checkbox"/> DIVORCED	
		<input type="checkbox"/> SEPARATED	
		<input type="checkbox"/> SINGLE	
IF IN BUSINESS OR A PROFESSION, STATE:			
TYPE OF BUSINESS OR PROFESSION _____			
NAME OF FIRM _____			
BUSINESS ADDRESS _____			
NAMES OF PARTNERS, IF ANY _____			
AND IF FARMING, STATE: LOCATION OF FARM _____			
TOTAL ACREAGE		CULTIVATED ACREAGE	
IF EMPLOYED, STATE: NAME OF PRESENT EMPLOYER _____			
UNEMPLOYMENT INSURANCE NO. _____			
TYPE OF WORK OR POSITION IN 1962			
LAST INCOME TAX RETURN WAS FILED FOR THE YEAR 19_____ NAME AND ADDRESS ON THAT RETURN WERE: SAME AS ABOVE <input type="checkbox"/> OR			
IF YOU DID NOT FILE A 1961 RETURN, STATE REASON _____			
IF YOU DID NOT RESIDE IN CANADA FOR 12 MONTHS IN 1962, GIVE DATE OF ENTRY _____ OR DEPARTURE _____			
(Immigrants and Emigrants—Refer to the 1962 T1 General Information Sheet for information as to the calculation of your tax.)			
GIFT TAX		INCOME FROM UNITED STATES	
Did you transfer any property, securities or cash of a value in excess of \$1,000 to any person in 1962? <input type="checkbox"/> (Yes, No) If "Yes" what was the total value of such gifts? <input type="checkbox"/> (Yes, No) If the total value of such gifts exceeded \$4,000, complete and file a Gift Tax Return not later than 30th April, 1963. The form may be obtained from your District Taxation Office.			
Did you receive income from sources within the United States for or on account of (a) Yourself? <input type="checkbox"/> (Yes, No) (b) Any other person resident in Canada? <input type="checkbox"/> (Yes, No) (c) Any other person not resident in Canada? <input type="checkbox"/> (Yes, No) If (c) is answered "Yes" file Canadian form NR1 and United States Form 1042 not later than 15th March, 1963. These forms may be obtained from your District Taxation Office.			

- **PENALTY**—The penalty for failure to file this return by the due date is 5 per cent of tax unpaid at that date.
- **INTEREST**—If income tax was not deducted at the source from at least three-quarters of your Net Income for 1962, you were required to make instalment payments of tax during that year. Late or insufficient instalments and unpaid taxes bear interest at 6 per cent per annum.
- **FARMERS AND FISHERMEN**—If your chief source of income was farming or fishing you may, subject to certain conditions, pay a tax for 1962 calculated on your average income of five years. Included in the conditions is the requirement that you complete and file, on or before 30th April, 1963, form T1 General in respect of your 1962 income, and form T2011 "Election to Average Income". For full information see the "Farmer's and Fisherman's Guide", 1962 Edition, or enquire at your District Taxation Office.

Certification

I HEREBY CERTIFY that the information given in this return and in any documents attached is true, correct and complete in every respect and fully discloses my income from all sources.

DATE _____

19 _____

TELEPHONE _____

IT IS A SERIOUS OFFENCE TO MAKE A FALSE INCOME TAX RETURN

Income and Deductions

SUMMARY OF INCOME

Net Income from Business, Profession, Commissions, Farming, Fishing (See Page 4)
 Net Income from Real Estate (See Page 4)
 Investment Income (See Page 3)
 Salaries, Wages, Bonuses, Pensions, Taxable Allowances, Taxable Benefits (Attach Copy 1 of T4 Slips)
 Tips, Gratuities, Casual Earnings
 Director's and Executor's Fees
 Alimony or Separation Allowances Received
 Old Age Security Pension
 Other Income (Specify) _____

TOTAL \$

DEDUCT:

Registered pension plan contributions
 Registered retirement savings plan premiums (Attach official statement or receipts)
 Other allowable expenses (Specify) _____
 Alimony or separation allowance paid to _____

(Name and Address)

TOTAL OF ABOVE DEDUCTIONS

NET INCOME \$

DEDUCT:

TOTAL PERSONAL EXEMPTIONS (See Page 3)

MEDICAL EXPENSES: CHARITABLE DONATIONS: ANNUAL UNION, PROFESSIONAL OR LIKE DUES

Claim either A or B below (not both)

A—Standard Deduction of \$100 (no receipts required)

B—Total of Allowable Amounts Below

Total Medical Receipts—Attach List and Receipts	\$
Less 3% of "NET INCOME"	\$
Allowable portion of medical expenses	\$
Charitable Donations—Attach Receipts (Maximum 10% of "Net Income")	\$
Dues paid to _____	\$

(Name of organization)

Total \$

BUSINESS LOSSES OF PRIOR YEARS (See T1 General Information Sheet)

TAXABLE INCOME \$

Calculation of Tax

FEDERAL INCOME TAX on "TAXABLE INCOME"—See "Rates of Federal Income Tax" below

ADD—TAX ADJUSTMENTS, if any (Specify) _____

TOTAL INCOME TAX \$

DIVIDEND TAX CREDIT

Amount of "Net" dividends from taxable Canadian corporations	\$
Amount of Credit—The credit is 20% of the above amount, but may not exceed "TOTAL INCOME TAX"	\$

BASIC TAX \$

FEDERAL TAX ABATEMENT

For persons who were resident in any province on 31st December, 1962, and did not have income from a business with a permanent establishment outside the ten provinces, the deduction is 16% of the "BASIC TAX" ►
(See T1 General Information Sheet)

FEDERAL INCOME TAX \$

ADD: OLD AGE SECURITY TAX—\$90 or 3% of "TAXABLE INCOME", whichever is less.

TOTAL FEDERAL TAX \$

FOREIGN TAX CREDIT—Make separate calculation for each foreign country

(a) Income or Profit Tax paid to foreign country	\$
Net Foreign Income† \$	× Total Federal Tax \$ = \$
Net Income† \$	(As above)

Deduct (a) or (b) whichever is less ►

† Do not deduct foreign income taxes paid in calculating these amounts.

ADD: PROVINCIAL INCOME TAX (Except Quebec Income Tax)

Provincial income tax, in most cases based on province of residence at 31st December, 1962 (See T1 General Information Sheet) is payable at the following rates:

(a) Manitoba and Saskatchewan—22% of "BASIC TAX". (*Including Hospital Services Tax)

(b) Provinces other than Quebec, Manitoba and Saskatchewan—16% of "BASIC TAX".

Province of _____ % of "BASIC TAX" ►

FEDERAL TAX PAYABLE \$

Rates of Federal Income Tax

LESS:

TAX DEDUCTED PER T4 SLIPS

INSTALMENT OR OTHER PAYMENTS

PENALTY FOR LATE FILING (5% of tax unpaid at 30th April, 1963—Maximum \$500)

BALANCE—ENTER IN PROPER SPACE BELOW \$

PAYMENT ATTACHED* BALANCE UNPAID

REFUND CLAIMED

OR

\$ \$ \$

* PAYMENT—Attach cheque (exchange not required) or money order payable to the Receiver General of Canada to the face of this return. Do not mail cash. Postage stamps are not legal tender.

Taxable Income	Tax
\$ 1,000 or less	11% on next \$ 1,000
1,000 \$ 110 + 14% on next	\$ 1,000
2,000 250 + 17% on next	1,000
3,000 420 + 19% on next	1,000
4,000 610 + 22% on next	2,000
6,000 1,050 + 26% on next	2,000
8,000 1,570 + 30% on next	2,000
10,000 2,170 + 35% on next	2,000
12,000 2,870 + 40% on next	3,000
15,000 4,070 + 45% on next	10,000
25,000 6,570 + 50% on next	15,000
40,000 16,070 + 55% on next	20,000
60,000 22,070 + 60% on next	30,000
90,000 45,070 + 65% on next	35,000
125,000 67,820 + 70% on next	100,000
225,000 137,820 + 75% on next	175,000
400,000 269,070 + 80% on remainder	



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

SUBMISSION TO

THE ROYAL COMMISSION ON TAXATION

BY THE

CANADIAN ASSOCIATION OF UNIVERSITY TEACHERS

77 METCALFE STREET, OTTAWA

SUMMARY OF RECOMMENDATIONS

7 1. The surest way to protect the university
8 teacher from the inequities to which he is at present
9 subject, is to make provision in the Income Tax Act for
10 recognition of his full-time university status as being
11 that of a professional man practising his profession. It
12 is recommended that this should be done by expanding the
13 significance of "business" in section 139 (1)(E) to
14 cover specifically the case of the university lecturer
15 employed in an university just as, in the United States,
16 it may include the performance of services by an employee.

17 2. Alternatively, a further subsection or sub-
18 sections should be added in addition to section 11(10)
19 of the Income Tax Act, to authorise the following deduc-
20 tions from income for expenses incurred by a university
21 teacher in the practice of his profession as a teacher
22 employed by a university:

1. Subscriptions to professional journals
2. Subscriptions to Learned Societies
3. Costs of robes, gowns and lab. coats
4. Costs of books purchased
5. Costs of attending meetings of Learned Societies
6. Costs of research work not reimbursed
7. Costs of summer school refresher courses



8. Costs of sabbatical leave connected with the teaching subject.
9. Costs of study in the university teacher's residence, as essential to proper performance of his professional duties.
10. Costs of travel and extra living expenses, through summer employment as visiting professor for teaching or research in another university.

The Object of this Submission

1. It is the purpose of this submission to show how the Canadian Income Tax Act at present discriminates most unfairly against university teachers, by preventing them from deducting from their incomes, for tax purposes, expenses which they necessarily incur in practising their profession as university employees. In their unique professional circumstances as employees, the essence of their activities is the maintenance of their scholarship.

The Restrictive Provisions of the Act

2. Sec. 12 (1)(a) of the Canadian Income Tax Act prohibits deduction of any outlay or expenses, in computing income, "except to the extent that it was made or incurred by the taxpayer for the purpose of gaining or producing income from property or a business of the taxpayer".

Sec. 12 (1)(h) of the Act specifically prohibits deduction of personal or living expenses "except travelling expenses" (including the entire amount expended



1 for meals and lodging) incurred by the taxpayer while
2 away from home in the course of carrying on his business".
3

4 The Meaning of "Business"

5 Since the term "business" in Sec. 139 (1)(e) of
6 the Act "includes a profession . . . but does not include
7 an office or employment", the stated provisions prevent
8 deduction of expenses by employed persons, in the absence
9 of specific provision. In the case of annual professional
10 membership dues, under Sec. 11(10)(a), and the items in
11 the other paragraphs of that subsection, there is such
12 specific provision. It may be noted that, in the United
13 States, the term "business", for the purposes of determin-
14 ing all the ordinary and necessary expenses incurred in
15 a business operation, includes the performance of services
16 as an employee, (U.S. Treasury Dept. letter Jan. 2, 1963,
17 Exhibit A). A necessary expense is one which is
18 appropriate and helpful in developing and maintaining the
19 business (Internal Revenue Services Document No. 5051,
20 "Business Expenses", page 2).

21 4. Such an interpretation of a business or pro-
22 fessional expense in Canada, with specific reference to
23 university teachers, would be entirely in line with what
24 is to be argued in this submission.
25

26 The University Teacher's Special Position.

27 5. The University teacher is a highly qualified,
28 skilled professional man, who has undergone years of
29 training and study for his chosen career. Normally a man
30 skilled in his profession has two courses open to him:



1 (1) He may practice his profession independently
2 or in partnership with others, as in the case
3 of doctors, lawyers, engineers, chartered
4 accountants: or

5 (2) He may take employment, using his profess-
6 ional skill in the service of his employer.

7 Thus a doctor or surgeon may be employed by a
8 hospital, or a lawyer or chartered accountant
9 or engineer may be employed by an industrial
10 concern.

11 6. The prospective university teacher has no such
12 choice available to him, unless he happens to be qualified
13 in one of the so-called "professional" subjects such as
14 those just stated -- medicine, law, engineering, chartered
15 accountancy. A professor of English or History or the
16 Classics can practice his profession only by taking
17 employment in a University. He cannot run a university
18 either on his own or in partnership. He may, from time
19 to time, write books and thus earn some non-employment
20 income, but in general most of his income will come from
21 his employment.

23 The Practice of his Profession by the University Teacher.

24 7. The fundamental question is whether a full-time
25 university teacher, who has dedicated himself to teaching
26 and research as a member of a university faculty, is
27 actually carrying on his profession when he is paid a
28 fixed salary by his university employer.

29 8. The distinguishing characteristic of practice
30 in a profession is the exercise of personal skills in



1 "some branch of learning or science" (Concise Oxford
2 Dictionary). The practicing professional man must have
3 autonomy; he must be able to make his own decisions
4 without being subject to the dictates of an employer. He
5 must carry full professional responsibility for those
6 decisions for, by his academic qualifications, he holds
7 himself out as possessing the skills required for the
8 subject he teaches.

9. It is the possession of these qualities that
10 distinguishes the university teacher from other employees.
11 The university as employer does not fit into the classi-
12 fication of "master" in the normal relation of master and
13 servant. It does not employ its academic staff for any
14 profit-making end. It exists simply to enable highly
15 skilled professional men, who individually have no means
16 of imparting their knowledge, to join together in
17 faculties in the cause of education. Through his
18 particular faculty the university teacher makes his own
19 academic decisions and, in co-operation with his colleagues,
20 exercises that autonomy which distinguishes him as a
21 practising professional man. Even the junior university
22 teacher has a position comparable with that of a junior
23 partner in a professional firm, contributing to decision-
24 making in association with his colleagues.

25. The distinction is obvious when it is realised
26 that the governing body, the university teacher's legal
27 employer, is made up very largely of laymen and has no
28 responsibility for academic decisions. It exists to
29 provide the administrative facilities which make possible
30 the carrying out of the university's academic purposes,



1 through its various faculties.

2

3 The Costs to the University Teacher of his Academic Practice

4 Throughout his academic career the university
5 teacher is constantly making decisions and taking actions
6 which will cost him money for which he will not be re-
7 imburshed. If he does not incur the cost, it is true that
8 he will most probably still retain his teaching position.
9 But there are obviously many different qualities of
10 teacher and, like the professional man in other practices,
11 the truly dedicated university teacher may be expected
12 to incur those costs which he considers necessary for his
13 academic work.

14 12. Any expense which will keep the university
15 teacher in touch with others in the same or related
16 academic fields, or which will enable him to keep abreast
17 of changing conditions, is an expense incurred in the
18 practice of his profession. He will probably not be
19 reimburshed for this expense, for it is here that his
20 position differs from that of the normal employee.
21 Without any specific mention in his contract of employment,
22 he is expected to incur the costs of keeping himself
23 efficient, and to make his own decisions as to what those
24 costs should be.

25

26 Principle Recognized by the Special Provisions of Sec.
27 11 (10) of the Income Tax Act.

28 13. It is for this reason, no doubt, that the
29 special concession of Sec. 11(10)(a), as to annual pro-
30 fessional membership dues, was added to the Income Tax



1 Act in 1952, with the further removal, in 1957, of the
2 requirement of specification in the contract of employment.
3 This concedes the whole truth of what has been argued,
4 but to restrict the deduction to professional membership
5 dues is to ignore many costs which should, on the same
6 grounds, be equally deductible.

7 14. Before 1951 it was not possible for a university
8 teacher who was, say, a doctor, lawyer, engineer, or
9 chartered accountant, to claim any deduction for his
10 annual professional dues, unless he earned income in
11 practice from sources other than his university employment.
12 These dues are now specifically deductible, but not the
13 following comparable expenses connected with the taxpayer's
14 specification.

- 15 (1) Subscriptions to professional journals;
- 16 (2) Subscriptions to Learned Societies;
- 17 (3) Costs of robes, gowns, lab coats;
- 18 (4) Costs of books purchased;
- 19 (5) Costs of attending meetings of Learned
20 Societies;
- 21 (6) Costs of research work not reimbursed;
- 22 (7) Costs of summer school refresher courses;
- 23 (8) Sabbatical leave.

24 15. It is because they are annually incurring these
25 expenses, knowing that they can expect no reimbursement
26 from the University, that many University teachers con-
27 stantly raise with the Association the question of
28 deductibility for Income Tax purposes. They are contin-
29 ually being reminded that these expenses are consuming
30 money which should logically be retained for payment of



1 the income tax itself.

2 16. Any employer who reimbursed such expenses for
3 an employee would be allowed to deduct them for income tax
4 purposes. There can be no equity in a situation which
5 requires the university teacher to pay tax on income which
6 he has already properly spent in carrying out his task as
7 an efficient teacher.

8
9 Precedents for Deductibility in other Countries.

10 17. Some, at least, of the stated expenses are given
11 special consideration in other countries. They may be
12 listed as follows:

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30



ANGUS STEREOGRAPH & CO. LTD.
TORONTO, ONTARIO

<u>Expenses</u>	<u>United Kingdom</u>	<u>United States</u>	<u>Australia</u>
1. Subscriptions for periodicals, reports, or subscriptions to bulletins or such publications, relating to the subjects of the taxpayer's lectures or research	Allowed as part of professional literature on subjects of lectures or research.	Subscriptions to educational journals allowed to teachers (Letter, U. S. Treasury Dept., 2-1-63 Exhibit A)	Deductible to a maximum, with subscriptions to Learned Societies, of L 10-10/- (Reported in "Vestes" The Australia University Review, July, 1959)
2. Subscription: to Association of University Teachers.	Two-thirds of the annual subscriptions to the central (not local) body is deductible.	Deduction is presumably allowed as a membership due in a professional society. (I.R.S. Document No. 5014, p. 5).	Subscriptions to professional learned Societies are allowed.
3. Robes, gowns, lab coats.	Costs of maintaining and replacing are deductible, but not deductible, but not initial cost,	Both cost and maintenance are deductible, since this is work-clothing not adaptable to general or continued usage so as to take the place	Depreciation of 7½% per annum, diminishing balance basis. (Letter from "Vestes" 10-1-63. Exhibit C)



ANGUS STONEHOUSE & CO LTD
TORONTO, ONTARIO

Expenses

United Kingdom

United States

Australia

of ordinary clothing (I.R.S.)

Document No. 5014 p. 5)

4. Library books.

Where used for lectures or research a deduction of not more than 'cost less second-hand value' may be claimed. No deduction where the capital outlay is for maintenance of the teacher's knowledge and qualifications (Assn. of University Teachers, C72a, Oct. 1959, and Exhibit B)

Cost of professional books work is a depreciable capital balance basis, allowed expenditure. (Exhibit A) on current value of a technical library used for lectures and research (Exhibit C)

Depreciation at $7\frac{1}{2}\%$ per

bought for use in professional annum on diminishing

5. Attending conventions and meetings of Learned Societies.

Not normally deductible. Expenses of travelling and meals and lodging costs of attending teachers' conventions are deductible if not reimbursed (Exhibit A)



	<u>Expenses</u>	<u>United Kingdom</u>	<u>United States</u>	<u>Australia</u>
6. Research	<p>It is recognised that university teachers are normally under some obligation to engage in research--within discretion of individual teacher. Deductions are then allowed in principle for such expense directly related to the teacher's subject, moderate and not reimbursable (Exhibit B).</p>	<p>Deductible if considered necessary. Recent decision that research is not 'necessary' for tenured faculty members is under appeal, supported by American Assn. of University Teachers. (Letter from Assn. Jan. 4, 1963)</p>	<p>is not 'necessary' for tenured faculty members</p>	<p>Not normally deductible.</p>
7. Summer School refresher courses	<p>Sec. 1102-5 of Income Tax Regulations</p> <p>(a) Expenditures made by tax payer for his education are deductible if they are for education,</p>			



Expenses

United Kingdom

United States

Australia

7(continued)

(including research activities) undertaken primarily for

(1) maintaining or improving skills required in employment . . . or

(2) meeting the express requirements of the employer".

If it is customary for other established members . . . the tax payer will ordinarily be considered to have undertaken this education for the purpose in (1)

Expenses in (2) are deductible, to the extent that they

(continued)



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

7 (continued)

Expenses

United
Kingdom

United
States

Australia

are for the maximum education required by employer or by applicable law and regulations, as a condition of retention of salary, status or employment. Not deductible if for obtaining a new position or substantial advancement. (Exhibit A

I. R. S. Document No. 5051,

p. 4)

where teachers are required by school board, and in order to maintain their **positions**, to travel on sabbatical leave may be set off by a university teacher as a necessary academic expense and report to the board, the travelling expenses may be deducted from any compensation received while on leave performance of academic work. (Exhibit C)



ANGUS, STONEHOUSE & CO LTD
TORONTO ONTARIO

14

Expenses

United
Kingdom

United
States

Australia

These expenses include overseas
travelling expenses, both accommo-
dation and transport ("Vestee")
July 1959).

8. Sabbatical leave
(continued)

(continued)



1 Costs of Study in Taxpayer's Residence

2 18. In the United Kingdom one of the concessions
3 gained for university teachers by the Association of
4 University Teachers, through its submission, some years
5 ago, to the Royal Commission on the Taxation of Profits
6 and Income, relates to the costs of a study in the teacher's
7 own residence. If he can show the necessity for the use
8 of such a room, in the performance of his duties, he may
9 claim a deduction from his employment income for a
10 reasonable portion of the rent (or annual value) and rates
11 applicable to the room, and for the incidental cost of
12 lighting, cleaning, heating, etc. The amount of the
13 deduction will depend on the extent of use of the room in
14 the performance of the teacher's duties and for other
15 purposes, respectively. (Association of University
16 Teachers, C 72a, October, 1959, Exhibit D).

17 19. A Canadian case on this exact issue was English
18 v. M.N.R. 56 DTC 267, in which the Income Tax Appeal
19 Board refused any such deduction by a university professor
20 from his employment income.

21 20. The decision in the United Kingdom is clearly
22 a concession to the special circumstances of a university
23 teacher. Its acceptance would seem to admit the justice
24 of allowing deduction of the other expenses already
25 reviewed, because of the special professional character
26 of university teaching. It cannot be equitable that a
27 university teacher should not be allowed to deduct these
28 expenses from his employment income, but only from any
29 non-employment income which he may earn in the taxation
30 year.



1 An Outstanding Case of Inequity: Costs of Travel and Extra
2 Living Expenses through Summer employment.

3 21. University lecturers have, from time to time,
4 appealed to this Association in circumstances where they
5 have been so penalized, through their inability to recoup
6 travelling expenses from the directly relevant remuneration,
7 that the results have been grossly inequitable, however
8 legal the interpretation of the Income Tax Department
9 may have been. A constantly recurring example is that of
10 the university teacher appointed by a university as a
11 visiting professor in its summer school.

12 22. In one outstanding but typical case, a Professor
13 of History on the staff of Memorial University of Newfoundland
14 took employment during the summer with the University
15 of Saskatchewan, for just one month, receiving \$450
16 remuneration. His actual expenses of getting to Saskatchewan
17 and living there were \$381. Of this amount \$157
18 was the cost of meals and may properly be classed as
19 personal expenses. The remaining \$224 was the cost of
20 travelling, plus rent which duplicated the living costs
21 of the visiting professor's home in St. John's. At most,
22 then, his net income for a month's summer lecturing was
23 \$226. Yet, he was required to pay \$170 income tax based
24 on the whole \$450., after the circumstances had been
25 fully reviewed and taken up with the Income Tax Department
26 in Ottawa.

27 23. Here the travelling expenses were incurred
28 solely for the purpose of earning the extra income and
29 returning to the place of normal employment. To treat
30 them as initial costs of getting to the place of employ-



1 ment under a normal "master and servant" contract, re-
2 gardless of the length of the contract, is to ignore, as
3 being personal expenses, a cost which cancels a very
4 large part of the income, whatever the legal position.
5 This cannot possibly be equitable.

6 24. It would be simple, and wholly equitable, to
7 make special provision in the Act for deduction of the
8 travelling and duplicated living expenses, in these
9 particular circumstances. If such a professional teaching
10 contract were defined by the Act as satisfying the
11 definition of "business", as in the United States, the
12 expenses would become deductible and the demands of equity
13 would be satisfied. The alternative seems to be an
14 addition to Sec. 11 of the Act, as in the case of
15 subsection (10), making specific provision for deduction
16 of these expenses incurred by professional teachers.

17 25. Nothing will persuade the professional university
18 teacher, in a case such as this, that he is being given
19 fair recognition, as a professional man, for tax purposes.
20 By undertaking such summer lecturing or research away
21 from his own campus, the university teacher gains that
22 broad experience which he needs, and the taking of such
23 assignments is encouraged by his own university. He
24 should not be penalized financially in the process of
25 improving his worth to the university.

26 27. The device of Specialized Conditions in the summer Employ-
28 ment Contract.

29 26. It may be argued that the university lecturer
30 has an easy means of avoiding the disallowance of travell-



1 ing and living costs. In the employment agreement the
2 agreement the university may identify as a refund of
3 expenses a portion of the payment to the university
4 teacher, equal to the travelling and living expenses.
5 Then, in the case of the travelling expenses, at least,
6 the summer school's payment for such expenses may be
7 specifically shown to be a refund of expenses already
8 incurred.

9 27. Even if this is possible, however, it is not
10 equitable to require the university lecturer to ask for
11 such a splitting of his fees to take place. If the
12 expenses can be claimed for deduction in the one case,
13 then provision for such deduction should be authorized by
14 the Act without any specific agreement in the employment
15 contract.

16 28. In any case, in the absence of some specific
17 provision in the Act, there would seem to be some doubt
18 whether travelling expenses refunded by the summer school
19 university can legally avoid being taxed, in the univer-
20 sity lecturer's hands. For it may be said to be income,
21 in terms of Sec. 5 (1) of the Act, received either as a
22 benefit in the year by virtue of the employment, under
23 Sec. 5 (1)(a), or specifically as an allowance for
24 personal or living expenses, under Sec. 5 (1)(b).

25
26 The addition of Sec. 5(2) to the Act: Construction Workers.

27 29. An example of specific provision in the Act to
28 put right an obviously comparable inequity, due to
29 unusual circumstances, is that which authorizes exclusion,
30 in spite of Sec. 5(1), of the board and lodging costs



1 incurred by a construction worker and refunded by his
2 employer, together with expenses of transport from his
3 ordinary place of residence to the construction site. Here
4 there can be no doubt of the "master and servant" relation-
5 ship, and the university teacher's claim for deduction, on
6 the grounds of his professional practice, has so much the
7 more validity. No mention of any condition as to duplica-
8 tion of board and lodging costs is made, in the construc-
9 tion worker's case. The university teacher should be able
10 to claim such deduction, at least where he can show that
11 the living costs are duplicated.

12

13 Conclusion

14 30. It is urged that the simplest way to protect
15 the university teacher from the obvious inequities to which
16 he is subject is to make provision, in the Act, for
17 recognition of his full-time university status as that of
18 a professional man practising his profession. This would
19 make unnecessary the addition of specific details to the
20 Act, such as those for construction workers under Sec. 5(2).

21 31. The significance of the word "business" in
22 Sec. 139 (1)(e) might be extended to cover specifically
23 the case of the university lecturer employed in a university
24 just as, in the United States, it may include the
25 performance of services by an employee.

26 32. If this cannot be done, then a further subsection
27 or subsections should be added to Sec. 11, to authorise
28 the various deductions specified in paragraphs (1) to (18)
29 of this brief. As things are, the professional university
30 teacher has a constant sense of grievance, when he



1 compares his position, as he practices his profession by
2 the only means possible to him, with that of other practic-
3 ing professional men.

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30



EXHIBIT A

U. S. TREASURY DEPARTMENT

Internal Revenue Service

Office of International Operations

Washington 25, D. C., USA

In reply refer to:

CP:IO:A.R:EC

Professor Kenneth F. Byrd

Purvis Hall, 1020 Pine Avenue West

10 | McGill University

11 Montreal, Quebec, Canada

12 | Dear Professor Byrd:

13 This refers

14 about the deductibility of various expenses incurred by
15 university professors.

Under the provisions of the Internal Revenue Code a taxpayer who is engaged in business is allowed to deduct all the ordinary and necessary expenses incurred in the operation of that business. The term "business" for this purpose includes a profession or performance of services as an employee.

22 Section 162 of the Code provides that "In
23 General, there shall be allowed as a deduction all the
24 ordinary and necessary expenses paid or incurred during
25 the taxable years in carrying on any trade or business,
26 including --

"(1) a reasonable allowance for salaries or other compensation for personal services actually rendered;

"(2) traveling expenses (including the entire amount expended for meals and lodging) while away from



1 home in the pursuit of a trade or business; ***

2 Section 212 of the Code which relates to personal, living,
3 and family expenses provides that in computing taxable
4 income, no deduction shall be allowed, except as other-
5 wise expressly provided in Chapter 1 of the Code for
6 personal, living, and family expenses.

7 Teachers may deduct dues to professional
8 societies, subscriptions for educational journals, and
9 expenses of traveling and meals and lodging incurred in
10 attending teachers' conventions in this country, if they
11 are not reimbursed for these expenses. Records must be
12 kept to substantiate the deductions. Cost of professional
13 books purchased for use in connection with their profess-
14 ional work is a depreciable capital expenditure. The
15 cost of university robes and gowns and laboratory coats
16 may be deducted.

17 Travel expenses incurred by teachers on sabbati-
18 cal leave from their schools, who receive compensation
19 while on leave may deduct (Sic) their travel expenses if
20 the travel was required by the school board and if they
21 are required to report to the school relative to their
22 travel. These expenses are not deductible if the travel
23 and study are not required by the school in order to
24 maintain the position.

25 The cost of clerical assistance is deductible
26 if the professor can show that the assistance is necessary
27 and that the expense if not paid by his employer. If a
28 professor is provided an office or office space, it would
29 be a rare instance when an office in his residence would
30 also be required. In general, if the university provides



1 an office the expense of an office in a professor's
2 residence would be disallowed in the examination of a
3 return on which the deduction was claimed.

4 Section 1.162-5 of the income tax regulations
5 provide that "(a) Expenditures made by a taxpayer for his
6 education are deductible if they are for education
7 (including research activities) undertaken primarily for
8 the purpose of:

9 "(1) Maintaining or improving skills required
10 by the taxpayer in his employment or other trade or
11 business, or

12 "(2) Meeting the express requirements of a tax-
13 payer's employer, or the requirements of applicable law or
14 regulations, imposed as a condition to the retention by
15 the taxpayer of his salary, status, or employment".

16 Whether or not education is of the type referred
17 to in subparagraph (1) above shall be determined upon the
18 basis of all the facts of each case. If it is customary
19 for other established members of the taxpayer's trade or
20 business to undertake such education the taxpayer will
21 ordinarily be considered to have undertaken this education
22 for the purpose described in (1) of the paragraph.

23 Expenses for education described in (2) are deductible
24 only to the extent that they are for the minimum education
25 required by the employer, or by applicable law or
26 regulations, as a condition to the retention of the tax-
27 payer's salary, status, or employment.

28 Expenditures made by a professor for his
29 education are not deductible if they are for the purpose
30 of obtaining a new position or substantial advancement



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

24

1 in position, or primarily for the purpose of fulfilling
2 the general education aspirations or other personal
3 purposes of the taxpayer.

4 We are enclosing some pamphlets which may be of
5 value to you.

6 Very truly yours,

7 C. I. Fox

8 Director of International Operations.

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30



1 EXHIBIT "B"

2 AIRMAIL Inland Revenue
3 Chief Inspector
4 Kenneth F. Byrd, Esq. Taxes Branch
5 Professor of Accounting New Wing, Somerset House
6 McGill University London, W.C. 2
7 Montreal 2, P. Q. 10 December, 1962

8 Dear Sir:

9 I have your letter of 22nd November, 1962. It
10 covers a wide field but I trust the following information
11 will assist you.

12 Professors and lecturers at universities hold
13 offices or employments, the income from which is assess-
14 able in the United Kingdom under Schedule E. To be ad-
15 missible as a deduction in arriving at the emoluments
16 assessable under this Schedule an expense must come within
17 paragraph 7 of the Ninth Schedule, I.T.A. 1952 which reads
18 as follows:-

19 "If the holder of any office or employment of
20 profit is necessarily obliged to incur and de-
21 fray out of the emoluments thereof the expenses
22 of travelling in the performance of the duties
23 of the office or employment, or of keeping and
24 maintaining a horse to enable him to perform
25 the same, or otherwise to expend money wholly,
26 exclusively and necessarily in the performance
27 of the said duties, there may be deducted from
28 the emoluments to be assessed the expenses so
29 necessarily incurred and defrayed".

30 In brief, before a man can claim an expense as



1 a deduction he must show that he is necessarily obliged
2 to incur it and that it is incurred in the performance
3 of his duties. The scope for deductions is, therefore,
4 very limited and the Courts have consistently supported
5 a strict interpretation of the terms of the paragraph.

6 However, it is recognized that if a university
7 teacher is to fulfil his duties adequately he may incur
8 expenditure in respect of which a claim under paragraph
9 7 is justified. I think the points to which you
10 specifically refer are all covered in the summary below
11 which sets out our normal approach to university teachers.

12 (1) Robes and Gowns

13 Where the wearing of these is customary the cost of
14 maintaining and replacing them, but not the initial
15 cost of providing them, would be allowed.

16 (2) Laboratory Coats

17 If the university did not supply these itself, the
18 cost of maintenance and replacement would be allowed
19 to teachers whose duties necessitate their use.

20 (3) Study Allowance

21 Where the facilities provided by the university are
22 inadequate and it is necessary for the teacher to
23 use a room at his residence in the performance of
24 his duties a reasonable deduction is allowed for rent
25 or annual value, and rates applicable to the part
26 of the residence so used and for the incidental cost
27 of lighting, heating and cleaning, etc.

28 (4) Research

29 It is recognized that university teachers are normally
30 under some obligation to engage in research in



1 in their subjects, but the nature and extent of the
2 research is within the discretion of the individual
3 teacher. Where there is an obligation to engage in
4 research we are prepared to agree deductions in
5 principle for research expenses which are directly
6 related to the teacher's subject, and are moderate
7 in amount, and in respect of which reimbursement is
8 not available.

9 (5) Books

10 No deduction is allowed for depreciation of a teacher's
11 library as such, but one may be allowed in respect of
12 purchases where it is clear that the books are used by
13 the teacher in the performance of his duties (i.e. if
14 they are used in the preparation of lectures or in
15 the course of research). No deduction is allowed
16 for expenditure on books which is in the nature of
17 capital outlay or which is incurred for the general
18 maintenance of teachers' knowledge and qualifications.
19 Where a deduction is allowed it is restricted to the
20 cost of the books less their secondhand value.

21 (6) Summer Schools, Refresher Course, etc.

22 Expenses incurred to maintain professional competence
23 and to keep abreast of current trends of thought are
24 outside the scope of paragraph 7; therefore, the
25 expenses of attending summer schools, refresher
26 courses, meetings of learned societies, conferences,
27 etc. are normally inadmissible. Where a teacher
28 attends a conference in an official capacity, e.g.
29 to read a paper, his expenses are usually reimbursed.

30 (7) Clerical Expenses



1 The expense of clerical assistance would not normally
2 be regarded as necessarily incurred in the performance
3 of a university teacher's duties; some deduction
4 might be allowed under (4) above - Research - for the
5 typing of articles for publication, etc.

6 (8) Subscriptions for Learned Societies

7 Where the activities of a Society are relevant to the
8 teacher's office or employment a deduction may be
9 given under Section 16, Finance Act 1958 in respect
10 of subscriptions to it provided the Society has been
11 approved by the Board of Inland Revenue for the
12 purpose of the Section. Frequently a subscription
13 entitles the member to copies of the Society's
14 periodicals and bulletins.

15 (9) Sabbatical Leave

16 It is a little difficult to generalize on the expenses
17 incurred by a professor on sabbatical leave or under-
18 taking summer school lecturing as no doubt the terms
19 on which they are engaged vary. Any expense in
20 respect of such work could not be deducted from the
21 income of his main post, but if in effect he took a
22 separate one the income from which is assessable
23 Schedule E, then again he could deduct from the
24 emoluments of that post those expenses within para-
25 graph 7. The cost of travelling between his main
26 place of work and the other university would not be
27 admissible nor would the cost of living away from
28 home.

29 Generally, the view is taken that the salary of
30 a university teacher is his remuneration for the work he



1 does. It is more or less standardized without regard to
2 possible variations in expenditure and it is, therefore,
3 a reasonable inference that an individual teacher is not
4 expected to use a substantial part of his salary to pay
5 for research, books, etc. Expenditure which is not modest
6 in amount, therefore, is considered to be not necessarily
7 incurred and not within paragraph 7.

8 Of course, in addition to holding offices or
9 posts at a university many teachers exercise a profession
10 the income of which is assessable Schedule D. For
11 instance, many write books and articles, appear on tele-
12 vision, speak on the radio, etc. In computing the profit
13 from such activities, which are often carried on from the
14 residence, teachers may be able to deduct expenses such
15 as travelling etc. which would not satisfy the stringent
16 terms of paragraph 7 and could not, therefore, be
17 deducted from their salary as university teachers.

18 Yours faithfully,

19 (Sgd.) R. W. Rae

20 Senior Principal Inspector of Taxes

21
22
23
24
25
26
27
28
29
30



1 EXHIBIT C

2 AIRMAIL

3 VESTES - The Australian Universities Review

4 General Editor

5 E. L. Wheelwright,

6 Department of Economics,

7 University of Sydeny. 10 January 1963.

8 Dr. J. H. Stewart Reid,

9 Executive Secretary,

10 Canadian Association of University Teachers,

11 77 Rue Metcalfe Street,

12 OTTAWA, Canada.

13 Dear Dr. Reid,

14 Thank you for your letter of 27 December last.

15 I am afraid we cannot help you at all. We have no copies
16 of the July 1959 Vestes left, and there are no special
17 taxation concessions made to university teachers as such.

18 The only ones which might be so regarded are an extension
19 of the principle of "tools of trade" allowances, which
20 apply to one's personal library and one's academic dress.

21 These can be depreciated at 7-1/2% p.a. on the diminishing
22 balance method, but capital costs are not allowable. The
23 only other deductions are those applicable to professional
24 persons, i.e. if an academic earns outside income from say
25 royalties, broadcasting, articles etc. quite distinct
26 from academic salary, then certain allowances such as
27 proportion of domestic heating and light bills, telephone
28 etc. may be set off against the outside income. But this
29 is normal practice for professional persons, and is in no
30 way a concession for university teachers.



1 The only item which could be called a concession
2 is that the personal (not family) expenses of going on
3 sabbatical leave may be set off as a necessary academic
4 expense against one's income during that year, on the
5 grounds that sabbatical leave is necessary for the proper
6 performance of academic work.

7 We are very interested in this matter ourselves
8 and should appreciate a copy of your submission in due
9 course, in case we have a similar opportunity in the
10 future. With best wishes,

11 Yours sincerely,

12 Bonnie Press

13 P.P. E. L. Wheelwright

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30



1 EXHIBIT D

2 Extract from Form C.72a, October, 1959, issued by the
3 Association of University Teachers in Great Britain.

4 3. Study.

5 Where it is necessary for a teacher to use a
6 room of his residence in the performance of his duties,
7 a deduction may be claimed for a reasonable proportion
8 of the rent (or annual value) and rates applicable to
9 the room and for incidental cost of lighting, cleaning,
10 heating, etc. The amount of the deduction will depend
11 on the extent to which the room is used in the performance
12 of the teacher's duties and for other purposes respectively.

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30



ANGUS, STONEHOUSE & CO LTD
TORONTO, ONTARIO.

1

2

3

4 Submission to the

5 ROYAL COMMISSION ON TAXATION

6 made on behalf of

7 GREAT BRITAIN AND CANADA INVESTMENT CORPORATION

8

9 by

10 J. T. KENWARD, C.A.

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

29th March, 1963



1

2 TABLE OF CONTENTS

	Page
4 Introduction and proposals	3
5 Supporting arguments	4
7 Recommendations	16
9 Appendix "A" - Calculation illustrating the 10 effect of allowing cash dividends 11 as a deduction from gross income	19
12 Appendix "B" - Example of information to be 13 furnished by investment 14 companies to the Department of 15 National Revenue and to share- 16 holders.	20
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
29	
30	



INTRODUCTION AND PROPOSALS

This submission is concerned with the taxation of Canadian closed-end investment trust companies under Section 69 of the Income Tax Act.

A closed-end investment trust company (hereinafter referred to as an "investment company") is by definition an agency through which the combined savings of many participants are invested so as to minimize risk, through diversification; whose shares have been subscribed in full and are not on tap; whose capital structure generally contains an element of leverage (gearing) for its Common shares, i.e., it has debentures and other Preferred stock outstanding; and where the portfolio of investments, diversified as aforesaid both as to categories and geographically, is under continuous professional management for long-term gain and not for trading purposes. Although generally described as an investment trust there are, in fact, no technical trustee relationships.

The main proposals of the submission are:

(i) The freedom of management policies of an investment company should not be restricted by government tax legislation concerning sources of income.

(ii) The burden of responsibility for taking tax decisions should be shifted from the investment trust managers to the individual shareholders who in effect are the real



1 beneficial owners of the investments.

2 (iii) The right to acquire and retain foreign
3 investments is essential to provide the
4 diversification of investment necessary for an
5 investment company.

6 (iv) The maintenance of foreign investment
7 is necessary to preserve a financial community
8 from becoming ingrown to its own and,
9 ultimately, the national disadvantage.

10 (v) Investment companies should be allowed
11 a deduction from gross income for all dividends
12 paid and should be taxed at normal corporate
13 rates on the undistributed balance of current
14 years' income.

15 (vi) Shareholders of investment companies
16 should be allowed a dividend tax credit on
17 only that part of dividends received which
18 represents underlying dividends received by
19 the investment company from other taxable
20 Canadian corporations.

21 (vii) Investment companies should be entitled
22 to a refund of tax suffered on income earned
23 after the proposed amendment becomes effective
24 if that income is subsequently paid out to
25 shareholders as a cash dividend.

27 SUPPORTING ARGUMENTS

28
29 A brief summary of the important tax
30 legislation enacted since 1949 for investment companies



1 will provide a useful introduction to the reasons for
2 this submission.

3 During the period from 1949 to date, four
4 conditions, required for a company to qualify as an
5 investment company under Section 69 of the Income Tax
6 Act of Canada, have remained virtually unchanged.

7 Firstly, that 80% of the company's property was,
8 throughout the year, shares, bonds, marketable securities
9 or cash; secondly, that not less than 95% of its income
10 for the year was derived from these investments; thirdly,
11 that at all times with the exception of Canadian federal,
12 provincial or municipal securities not more than 10% of
13 the company's property was securities of any one
14 corporation or debtor, and fourthly, that at all times
15 the company had at least 50 shareholders, none of whom
16 held more than 25% of the capital stock of the company.

17 In contrast to the above stability of definition
18 other conditions have been amended in bewildering fashion.
19 In 1954 and previous years, an investment company was
20 totally exempt from income tax provided it complied with
21 the conditions outlined above and also distributed at
22 least 85% of prescribed income, less foreign taxes, to
23 shareholders before the end of the Company's fiscal year.
24 Favourable as this legislation appeared some companies
25 were reluctant to apply for investment company status,
26 since their shareholders then lost the benefit of the
27 tax dividend credit of 10% which was introduced in 1949
28 and increased to 20% in 1953. As the tax credit was
29 beneficial to some shareholders with high personal
30

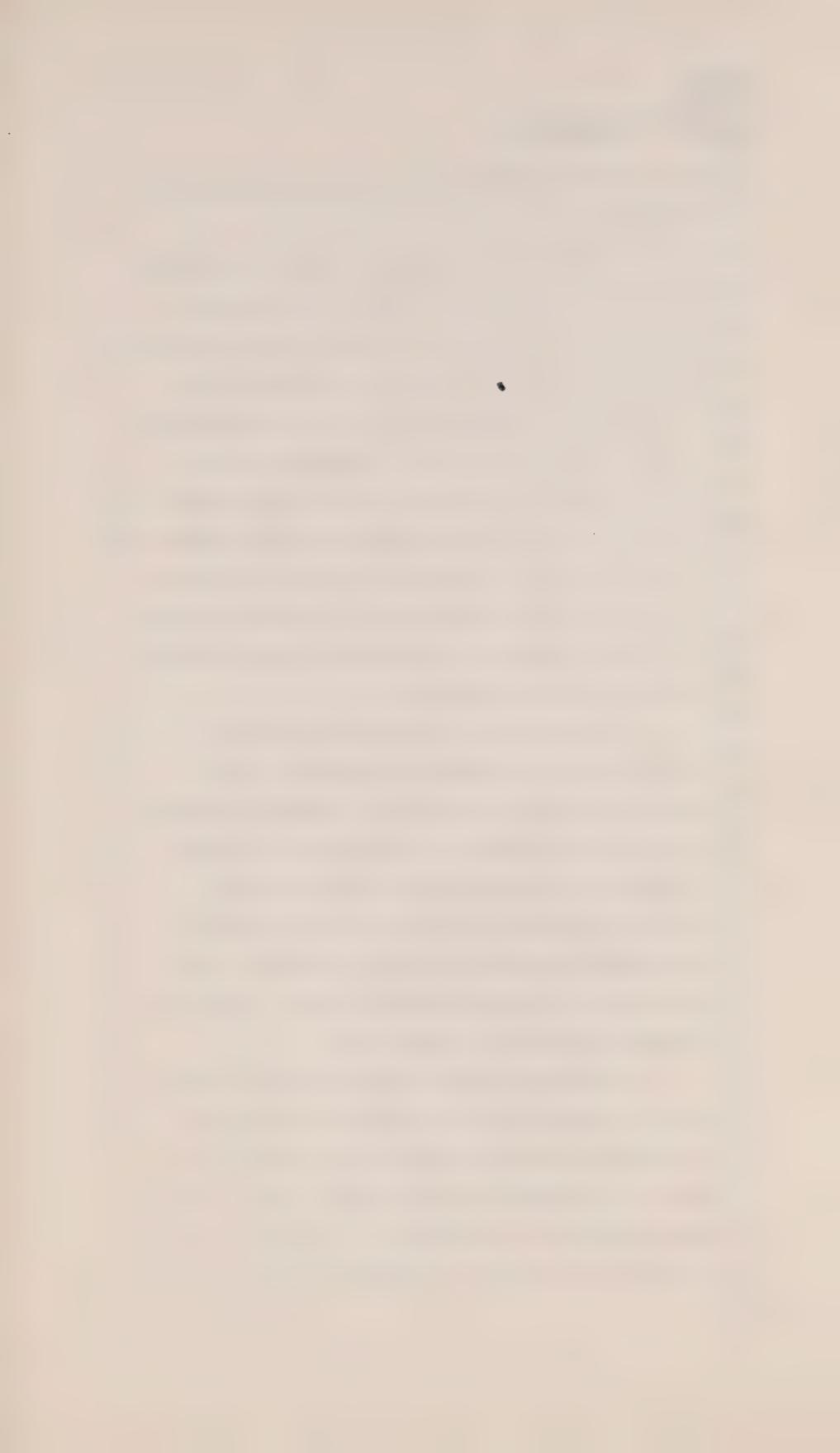


1 incomes while others, including non-residents, received
2 no advantage, there was an obvious conflict of tax
3 interests which placed some company managers on the horns
4 of a dilemma, having to choose between ordinary company
5 or investment company status.

6 However, in 1955, two amendments substantially
7 corrected this situation and drastically changed tax
8 philosophy. Investment companies became liable to tax
9 at 20% on taxable income, thus automatically entitling
10 shareholders to the 20% dividend tax credit regardless
11 of whether the company was being taxed as an investment
12 company or as an ordinary company. Subsection (ba) of
13 Section 69 was also introduced to provide that not less
14 than 60% of a company's gross revenue for the year should
15 be dividends from taxable Canadian corporations.

16 In 1956 subsection (ba) was amended to provide
17 that not more than 50% of a company's gross revenue for
18 the year should be from interest, and by eliminating the
19 words "taxable corporations" also reversed the previous
20 year's restriction on dividends from foreign sources. This
21 change in the previous year's legislation permitted an
22 investment company to derive 100% of its income from
23 foreign sources, while at the same time permitting the
24 Company's Canadian shareholders to claim a 20% dividend
25 tax credit, since the dividends were being received from
26 a taxable Canadian corporation. As the company could
27 also claim a foreign tax credit against its tax payable
28 it would appear that the 1956 legislation did not benefit
29 the Canadian Treasury.

30 In December 1960, tax measures were introduced
which once again completely reversed previous legislation





1 enacted in 1956 and restored a much more severe form of
2 the 1955 law.

3 While appreciating the difficulty of enacting
4 legislation which is clear, impartial and equitable,
5 it is believed that the above summary of past legislation
6 involving Section 69 gives a fair impression of the
7 inconsistencies and anomalies with which the investment
8 companies have been faced. For instance, the 1955
9 amendments required companies to make drastic changes in
10 their portfolios by selling certain holdings of bonds and
11 foreign securities in order to meet the "60% dividends
12 from taxable Canadian corporations" requirement, and yet
13 the following year the law was amended in such a way as
14 to render such sales unnecessary.

15 The 1960 tax legislation has led to the
16 frustration of long established and well proven
17 investment policies. After at least twenty-five years
18 of holding approximately 60% Canadian securities and
19 40% foreign securities, Great Britain and Canada
20 Investment Corporation has been forced to liquidate
21 approximately \$4,500,000 of foreign securities or 30%
22 of the total investment portfolio in order to meet the
23 necessary requirements of Section 69.

24 To ensure that the investor's risk is spread
25 as widely as possible, it is of paramount importance
26 that investment managers should have a completely free
27 hand to invest where, when and how they decide, without
28 being fettered by tax regulations. The extremely small
29 list of stocks available in Canada in some major
30



1 industries, e.g., electronics, soft drinks, transportation,
2 insurance, packaged goods, and drugs, emphasizes the need
3 for freedom to invest in foreign markets.

4 For a company to enjoy the benefits conferred
5 by Section 69 the general objectives of diversification
6 both as to category of investment and geographical
7 location must be sacrificed. Certainly the Canadian
8 market cannot provide investment companies with the
9 degree of diversification which has always been their
10 strength. The present nationalization and take-overs
11 only tend to reduce the choice further.

12 This view is further supported by the
13 statistics shown in the Financial Post 1962 Survey of
14 Investment Funds, for the growth record of common shares
15 of closed-end funds on a cumulative basis for the nine
16 years 1953 to 1961 inclusive. During this period the
17 shares of the following companies increased in net asset
18 value by more than 200% as follows:-

19 Argus Corporation 239%

20 Canadian Power & Paper Securities 218

21 Debenture & Securities Corporation of Canada 531

22 Dominion-Scottish Investments Ltd. 338

23 Great Britain & Canada Investment Corporation 706

24 Of the above companies at least three, including Great

25 Britain and Canada Investment Corporation, are known to

26 have invested considerable amounts outside of Canada

27 during this period. Investors Mutual of Canada Limited,

28 who held substantial holdings of U.S. stocks, with an

29 increase in net asset value of 181%, had the best record

30



1 of the open-end funds. (Note: A nine-year rather than
2 a ten-year period was taken because figures for the
3 latter period were not available for two of these
4 companies.)

5 Despite the success of this Corporation due in
6 part to diversification it should be pointed out again
7 that the Company's investment in Canadian securities has
8 remained constant at approximately 60% for the last
9 twenty-five years without being questioned, and it is,
10 therefore, submitted that, although tax policy is
11 undoubtedly of national importance and should be directed
12 towards stimulating economic growth, at the same time
13 it should be equitable to all segments of the community
14 making a contribution to Canadian business financing.
15 The creation of a Canadian money market in 1954 provided
16 the means to use all of the surplus funds available in
17 Canada. Despite the comparative reluctance of the
18 Canadian public to invest in any form of risk capital
19 both open-end and closed-end investment trusts in Canada
20 have done much to attract the small investor's savings.
21 In the period from 1948 to 1963 the total assets of
22 Canadian owned mutual funds increased from \$20 million
23 to \$800 million and in the same period total assets of
24 closed-end funds rose to approximately \$500 million.

25 In the annual report for the year ended 31st
26 December, 1962, the President of this Corporation stated
27 that "Closed-end investment trusts, such as this
28 Corporation, can enjoy popularity and success only in
29 highly developed financial centres where professional
30



1 investment managements are encouraged to invest the funds
2 under their responsibility in those securities and
3 markets where prospects appear most rewarding." With
4 the growth of international trade becoming every more
5 important, it is essential to retain a financial
6 community which is conversant with opportunities for
7 investing abroad. The importance of foreign investments
8 to a country as a whole has been amply demonstrated
9 during and since the last World War by the events
10 involving the United Kingdom and the United States.
11 While the one was forced by the exigencies of war and
12 its aftermaths to restrict the export of capital, the
13 other poured money into foreign investments including
14 those in Canada. As a result British investments abroad
15 decreased while during the same period the U.S. was able
16 to acquire valuable footholds in fresh markets.

17 Historically in the United Kingdom, where the
18 variety of investments far exceeds that available in
19 Canada, proved and sophisticated investment companies
20 have a long record of substantial holdings in foreign
21 investments. Many of these companies have as much as
22 25% of their portfolios invested in Canadian and U.S.
23 securities.

24 The advent of the European Common Market
25 sparked the formation of investment companies in the
26 United States for the express purpose of investing in
27 European securities.

28 Such investments produce foreign income which
29 inevitably benefits the recipient country. This is
30



1 particularly true in the case of Canada, which over the
2 long term has faced large trade deficits. In addition
3 the Canadian Government could, in a national emergency,
4 always avail itself of the source of these funds, just
5 as did Britain in both World Wars.

6 It should perhaps be pointed out here that
7 neither the United Kingdom nor the United States
8 discourages investment in foreign countries by tax
9 legislation.

10 The Honourable Donald M. Fleming, then the
11 Minister of Finance, in introducing his measures for
12 encouraging a greater participation of Canadian capital
13 in the ownership and control of Canadian industry stated
14 that the pension funds and investment companies probably
15 provided the largest flow of individual savings
16 available for investment in the ownership of Canadian
17 industry. However, at the same time he remarked
18 "Investment funds and mutual funds which qualify as
19 'investment companies' under the Income Tax Act enjoy
20 a special low rate of tax of 21%. This is in recognition
21 of the fact that these companies are essentially conduits
22 through which an individual may channel his investment
23 in order to obtain a diversification which he could not
24 obtain by investing directly".

25 It appears that Mr. Fleming appreciated the
26 "conduit" character of investment companies but preferred
27 to penalize the company rather than the individual
28 shareholders. From an administrative point of view it
29 is probably easier to enforce a policy on a company than
30



1 on a great number of individual shareholders, however,
2 if the managers of the company are forced to make the
3 decision, it puts them in much the same dilemma as
4 the pre-1955 period when they had to choose between
5 investment company or ordinary company status, depending
6 on the status of their shareholders. This time the
7 problem to be solved is not whether the shareholder will
8 benefit from a dividend tax credit but whether the
9 shareholder's personal tax rate would be higher or lower
10 if he were to invest directly in the foreign securities
11 instead of through an investment company. If we can
12 safely assume that the majority of shareholders in
13 investment companies purchase their shares because they
14 do not have the resources to obtain directly the same
15 diversification of investments, surely it can be equally
16 assumed, in most cases, that the shareholders personal
17 tax rates are low. Furthermore, if they wish to invest
18 solely in Canadian portfolios, there are many investment
19 companies which do not have foreign investments.

20 If an investment company is forced to pay tax
21 at the 50% rate because it has a high proportion of
22 foreign income the shareholder is penalized because he
23 will receive a dividend which as already suffered 50%
24 Canadian tax against which he can only claim a 20% tax
25 credit, whereas if he received the dividend direct he
26 would only suffer tax at his particular maximum rate.
27 The following calculation illustrates the effect on a
28 taxpayer whose maximum tax rate is 30%.



1	Dividend received		
2	Dividend received through		
3	<u>direct</u>	<u>investment company</u>	
4	Gross foreign dividend	\$100	\$100
5	Less withholding tax	15	15
6		<u>85</u>	<u>85</u>
7			
8	Less tax on gross dividend		
9	(assuming maximum rates)	\$30	\$50
10	Deduct foreign tax credit	15 15	15 35
11		<u>—</u>	<u>—</u>
12		\$70	50
13		<u>—</u>	<u>—</u>
14	Less tax at 30%		15
15	Deduct dividend tax credit		
16	20% of \$50	10	5
17		<u>—</u>	<u>—</u>
18			\$45
19		<u>—</u>	<u>—</u>

Such a disparity in the final net dividend, after tax, would discourage the holding of investment company shares, yet if the shareholder were to pay tax at a maximum rate of 80% the disparity disappears as shown in the following tabulation.

24
25
26
27
28
29
30



1	Dividend received			
2	Dividend received through			
3			direct	investment company
4	Gross foreign dividend		\$100	\$100
5	Less withholding tax		15	15
6			—	—
7			85	85
8	Less tax on gross dividend			
9	(assuming maximum rates) \$80			
10	Deduct foreign tax credit	15	65	15
11		—	—	—
12			\$ 20	50
13			—	—
14	Less tax at 80%			
15	Deduct dividend tax credit -			
16	20% of \$50		10	30
17			—	—
18	\$ 20			
19	—			

There are those who point out that investment trust shareholders get very favourable tax treatment, because regardless of allowed proportions of foreign income and Canadian bond interest represented in the dividends paid by an investment company, the shareholders are entitled to a 20% dividend tax credit on the full amount of the dividend. This favourable consideration should not be granted to the shareholders because an investment company may derive close to 40% of its income from sources other than dividends from taxable Canadian corporations, i.e., up to 25% from Canadian bond interest and up to 15% from foreign dividends. With these facts



1 in mind perhaps consideration should be given to
2 alternative ways of assessing tax on a more equitable
3 basis.

4 As we have seen, an investment company is a
5 conduit, it is therefore submitted that the beneficial
6 owners of the investment portfolio, i.e., the shareholders
7 should, in effect, be offered the right to decide their
8 own tax fate. If the managers of the company are forced
9 to make the decision, the penalty of not being an
10 investment company for tax purposes is such that they
11 may choose to pay the lower rate of tax even though
12 this may conflict with long term investment objectives.
13 Why should the small investor's opportunity to invest in
14 foreign securities be thus restricted? It is submitted
15 that the small investor should not be deprived of the
16 opportunity to invest outside of Canada and that for
17 investment companies to be forced to ignore foreign
18 markets can only lead to isolationism of financial thought
19 and an ignorance of foreign investment possibilities.

20 Again who is to say that 15% and 25% are
21 reasonable limits to place on foreign income and bond
22 interest respectively? Such limitations only provoke
23 the practice of "tax schemes". For instance an investment
24 company might legally take a minority stake in a series
25 of low tax bracket Canadian companies, controlled by
26 different parties, formed for the sole purpose of
27 deriving the majority of their incomes from foreign
28 dividends. As such companies would be taxed as ordinary
29 Canadian corporations the dividends received from them by
30



1 the investment company could be treated as dividends from
2 taxable Canadian corporations.
3

4 RECOMMENDATIONS

5 The foregoing has been written to focus
6 attention on the inequities of Section 69, the
7 uncertainties which tax legislation can promote for
8 long-term investment policies and the tax schemes which
9 such legislation is bound to provoke.

10 It is assumed that, for the present, Canadian
11 tax law will continue to permit Canadian companies to
12 pay dividends out of fully taxed profits in contrast
13 to the U.K. system, and that therefore the 20% dividend
14 tax credit will remain so as to reduce the incidence of
15 double taxation. Therefore, the following tax measures
16 are suggested to provide both equity and certainty for
17 future operations of investment companies without
18 encroaching on normal management policies.

19 A. An investment company should be allowed to
20 deduct, from total gross income earned during its
21 fiscal year, all expenses and allowances permitted
22 under the present Act and all cash dividends paid
23 during the same fiscal year, such expenses, allowances
24 and dividends to be deducted, pro rata, to the
25 different forms of gross income earned by the company.
26 (See Appendix "A"). The resulting net income
27 hereinafter referred to as "taxable income".

28 B. An investment company should exclude, from all
29 calculations of tax payable, that portion of all
30



1 foreign and provincial taxes applicable to cash
2 dividends allowed as a deduction in computing net
3 taxable income. (See appendix "A").

4 C. The company should be taxed at normal corporate
5 rates on net taxable income.

6 D. An investment company should be allowed a
7 refund of any taxes, suffered on income earned after
8 this proposed amendment becomes effective, where the
9 income is subsequently paid out in the form of cash
10 dividends.

11 E. At the end of its fiscal year, the company
12 should report to its shareholders for the purpose of
13 their personal income tax returns, the amounts of
14 Canadian non-taxable dividends, other Canadian income,
15 and the different forms of foreign income, which are
16 represented in the total cash dividends paid to its
17 shareholders. The company would also be required to
18 state the amount of foreign withholding taxes
19 applicable to the different forms of foreign income
20 reported. (See Appendix "B").

21 F. For the purpose of the immediately preceding
22 Section E the Company should base its calculation,
23 of the various proportions of income and foreign
24 taxes, on its total income and taxes for its fiscal
25 year and apply these proportions to all cash dividends
26 paid during such year, regardless of their dates of
27 payment.

28 G. Shareholders would declare for personal income
29 tax purposes, the amounts of dividends from Canadian
30



1 taxable corporations, other Canadian income, the
2 different forms of foreign income and foreign withholding
3 taxes, from the information to be supplied by the company.
4 The shareholder would only be entitled to a dividend tax
5 credit on the amount shown as being from Canadian taxable
6 corporations.

7 H. Subsections (ba), (bb) and (e) of Section 69
8 (2) of the Income Tax Act, dealing with maximum
9 allowable proportions of foreign and interest income
10 and minimum requirements for dividend distributions,
11 should be repealed.

12 These suggestions are put forward with a view
13 to removing the impact which tax considerations have on
14 investment policies, to place the responsibility of tax
15 decisions on the shareholders who ultimately have to
16 bear the tax, to offer a wider and more sophisticated
17 choice of investment portfolios to the Canadian public,
18 to permit the investor to assess the merits of each
19 investment company portfolio in the light of his own
20 personal tax position, and to grant the dividend tax
21 credit on a basis fair to all. It is suggested that the
22 1960 legislation be repealed, a precedent for which was
23 set in 1956, and that the tax laws for investment
24 companies be thoroughly re-examined to make the tax
25 burden more equitable.

26

27

28

29

30



APPENDIX "A"

Calculation illustrating the effect of allowing cash dividends as a deduction from gross income.

	Dividends from Cdn. taxable corporations	Canadian bond interest	U.K. income	U.S. income	Total income
Interest on Bonds & Debentures, etc.		\$40,000		\$ 5,000	\$ 45,000
Dividends	<u>\$130,000</u>	<u>—</u>	<u>\$10,000</u>	<u>20,000</u>	<u>\$160,000</u>
	130,000	40,000	10,000	25,000	205,000
Less depletion (say)	<u>5,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	125,000	40,000	10,000	25,000	200,000
Percentage of Total	61.95	20%	10%	12.5%	100.00
Expenses	<u>25,000</u>	<u>1,000</u>	<u>2,000</u>	<u>—</u>	<u>28,000</u>
	100,000	30,000	8,000	—	140,000
Dividend	<u>75,000(62.5%)</u>	<u>—. 01(000)</u>	<u>6,000(5%)</u>	<u>2,000(12.5%)</u>	<u>120,000(100%)</u>
Net Taxable Income	<u>\$ 25,000</u>	<u>\$ 0,000</u>	<u>\$ 2,000</u>	<u>\$ 5,000</u>	<u>\$ 32,000</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Tax at rate of 31% on \$32,000			
50% on \$ 5,000			
			\$ 1,580
Less: 10% Province of Quebec credit			
			\$ 1,428
			\$ 1,428

Foreign Tax credit on undistributed income

Taxes paid			
2,000 at 38.75%		\$ 775	
5,000 at 15%			\$ 750
Proportionate Canadian Tax			
$\frac{2,000}{10,000} \times \$5,850$		\$ 292	
$\frac{5,000}{10,000} \times \$5,850$			\$ 730
			1,023

INCOME TAX PAYABLE

" Undistributed losses for the year carried forward in the following manner, and all of profits in form of cash dividends.



APPENDIX "B"

If dividends totalling \$600 during a full year were paid to a shareholder by the Company illustrated in Appendix "A", the Company would be required to report to the Department of National Revenue and provide the shareholder with the following information.

Dividend derived from the following sources -

10	Canadian taxable corporation	\$ 375
11	Canadian bond interest	120
12	U.K. income	30
13	U.S. income	75
14		<hr/>
		\$ 600

Foreign withholding taxes

18	\$30 at 38.75%	\$ 11.63
19	75 at 15%	11.25
20		
21		\$ 22.88

BRITISH

VOLUME No.:



1

ROYAL COMMISSION ON TAXATION

2

(under Order-in-Council P.C. 1962 - 1334)

3

SUBMISSION

4

by

5

IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

6

7

I N D E X

Page

9 Summary

10 Who Shares the Canadian cigarette smoker's dollar?

11 Terminology

12 Introduction

13 Specific commodity taxes

14 Why pick on tobacco?

15 Other aspects

16 Reasonable degrees of reliance on specific
commodity taxes

17 The tobacco industry

18 Alternative sources of revenue

19 Taxes on tobacco products other than
cigarettes

20 Recommendations

21

Appendices

22 A. Calculation of present rates of federal
excise taxes on cigarettes

23 B. Comparative rates of federal commodity
taxation including sales tax -- repre-
sentative commodities -- 1962

24



1 Appendices (continued) Page

2 C. Rates of federal excise taxes on man-
3 ufactured tobacco products

4 D. Total federal excise taxes on repre-
5 sentative standard tobacco products.

6 E. Total federal excise taxes (excluding
7 sales tax) paid by the consumer of
8 manufactured tobacco products compared
9 with other representative commodities

10 F. Volume of manufactured tobacco products
11 consumed in Canada

12 G. A note about the company

SUMMARY

This submission is presented on behalf of the Canadian cigarette smoker who is being made to contribute an unreasonable amount to Federal revenues.

The cigarette smoking half of the population is drastically more highly taxed than the other without any pretence at equity or benefit.

A commodity as widely used as cigarettes cannot be considered a luxury, yet it bears the highest tax of any commodity.

It is not the function of our tax system to regulate smoking for non-economic reasons valid or not.

By any acceptable yardstick the rates of federal excise taxes on cigarettes are abnormal and unreasonable.

The cigarette industry is almost one hundred per cent Canadian. Drastic levels of taxation not only



1 affect smokers but also affect the livelihood of the
2 tobacco farmer and tens of thousands of working Canadians
3 from all sections of the economy.

4 Alternative sources of revenue are available
5 by removing a number of exemptions presently allowed from
6 the Federal Sales Tax and by applying the Federal Sales
7 Tax on a broader base, particularly to the sale of
8 services.

9 It is recommended that the rates of Excise Duty
10 and Excise Tax on cigarettes be cut in half. Even if
11 this is one, federal excise taxes on cigarettes will be
12 ten times the level of the general sales tax.

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

4

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

COLLECTOR OF FEDERAL EXCISE TAXES

WHO SHARES THE CANADIAN CIGARETTE SMOKER'S DOLLAR



*

Shared among:

Tobacco farmer ■ Tobacco processor ■ Supplier of other manufacturing materials ■ Worker — plant and office
Manufacturer ■ Merchandiser ■ Trucker and railroader ■ Wholesaler ■ Retailer ■ Supplier — other goods and services
Collector of Federal Corporate Tax ■ Collector of Provincial Taxes ■ Collector of Municipal Taxes

30



1 Terminology:

2 In this submission the phrase "federal excise
3 taxes" includes federal excise duty (levied under the
4 Excise Act), federal excise tax and federal sales tax
5 (both levied under the Excise Tax Act). The phrase
6 "federal tobacco taxes" includes the excise duty and
7 excise tax on tobacco products but does not include the
8 sales tax on tobacco products.

9
10 Introduction:

11 It will presumably come as no surprise that we
12 intend to argue in this submission, on behalf of the
13 Canadian smoker, that federal tobacco taxes should be
14 reduced. Unfortunately to propose a reduction in these
15 taxes is, in the nature of things, to appear to be asking
16 for concessions. In this instance this is not the case.
17 The smoker is not seeking special treatment. Quite the
18 contrary -- he is seeking relief from the special treat-
19 ment he has been getting. The reductions we request are
20 from rates of taxation we believe to be quite indefensible.
21 In support of this contention we would first like to make
22 a few observations on the present levels of federal
23 tobacco taxation, in case these are wrongly assumed to
24 be normal or reasonable.

25
26 Specific commodity taxes

27 To begin with, we suggest there can be no basic
28 fairness in specific commodity taxes on widely used
29 products, such as tobacco, which are clearly not restricted
30 to a small privileged class and which are characteristi-



1 cally used in approximately the same quantities by all
2 income groups. They are not based on ability-to-pay. Nor
3 are all such taxes based on the principle of specific
4 benefits received.

5 Specific commodity taxes are resorted to on the
6 grounds of convenience. They are productive and easy to
7 collect. We appreciate that such taxes are imposed in all
8 countries, and that it is unrealistic to suggest that
9 Canada can get by entirely without them. However it
10 should be made clear from the start that the justification
11 for specific commodity taxes on tobacco, which is so
12 widely used, can only be expediency and not fairness or
13 equity.

14 That the federal tobacco taxes are inequitable
15 is perhaps self-evident, but the extent of the unfairness
16 may go unrecognized. However a very simple example will
17 demonstrate how extreme this unfairness is. Take the
18 representative case of a married man, with two children,
19 earning the average industrial wage of \$4,000 a year. He
20 will pay income tax of \$191. If he and his wife each
21 smoke a 20-cigarette pack a day, they will pay an
22 additional \$146 a year in federal excise taxes on cigar-
23 ettes. This means that while we go to great pains to
24 establish a personal income tax carefully graduated in
25 accordance with ability-to-pay, any equity we may attain
26 is lost when people in the same circumstances pay 75%
27 more tax if they happen to be smokers. As approximately
28 half the adult population are in fact smokers, it means
29 that one-half of the population is drastically more
30 highly taxed than the other without any pretence at equity



1 or benefit.

2 In illustrating our point by reference to a
3 taxpayer at the \$4,000 salary level, we are of course not
4 taking the most extreme example we could find. As a
5 matter of fact, the majority of taxpayers earn less than
6 \$4,000 and the comparison for them would be more striking
7 for that reason -- because income taxes drop as we go
8 down the earnings scale while federal excise taxes on
9 cigarettes do not.

10 In this simple illustration we deal only with
11 personal income taxes and federal excise taxes on ciga-
12 rettes. It might perhaps be thought that, in the complex
13 labyrinth of our tax system, there must be many such
14 anomalies -- but this is not so. Cigarettes stand alone
15 in this respect. Other tobacco products, distilled
16 spirits and malt beer come closest to cigarettes as
17 targets for taxation, but only distilled spirits approach
18 the same level of taxation.

19
20 Why pick on tobacco?

21 Surely the present rates of tax on tobacco,
22 which are so far out of line with our whole tax pattern,
23 could not have been enacted, even on grounds of expediency,
24 had not certain non-economic (and we think irrelevant)
25 considerations had their influence. It is surely undesir-
26 able that this should be so -- and particularly when some
27 of these attitudes to tobacco are based on doubtful logic.

28 To some extent our high tobacco taxes are un-
29 doubtedly attributable to opposition to smoking which,
30 though sometimes quite passionate, is based on rather



1 vague grounds. It would be difficult without making this
2 submission intolerably long, to deal fully with this
3 opposition to smoking, but we must comment briefly on the
4 notions that smoking is a luxury, or even that it is
5 immoral or that it might be injurious to health.

6 Smoking is certainly an odd kind of luxury. It
7 is enjoyed by half the adult population, and not by a
8 privileged few. With the exception of a few connoisseurs
9 of fine cigars, there is no difference in the smoking
10 pattern of rich and poor. Any cut-and-dried distinction
11 between luxuries and necessities is purely arbitrary. It
12 is much more realistic to consider that there are degrees
13 in which products are more or less necessary -- and a
14 wide range of personal opinion as to what is necessary and
15 what is not. After all, only a negligible minority of
16 Canadians are literally at a subsistence level, and the
17 absolute necessities to maintain life are a limited part
18 of the expenditures of almost any Canadian family. When
19 we get beyond the basic minimum expenditure on food,
20 clothing and shelter to maintain life, every expenditure
21 might be said to have some element of "luxury" in it. It
22 is interesting to note that tobacco is a component in the
23 D.B.S. consumer price index which is based on average
24 family spending habits.

25 We do not believe that the arguments that
26 smoking is immoral or that it might be injurious to health
27 are valid -- but even if there were some element of
28 validity in these viewpoints, it should not be the func-
29 tion of our tax system to regulate smoking. To attempt
30 to do so introduces invidious distinctions in the treat



1 ment of taxpayers and constitutes an attempt to steer
2 consumer demand from what people want to spend their
3 money on to something else. As the economists would say
4 -- the result is "a less than optimum level of consumer
5 satisfaction".

6

7 Other aspects

8 Half the adult population smokes and this
9 results in unfair tax burdens as between people. However
10 a high tax on cigarettes would still be unfair even if
11 everybody smoked. A person with ten times the income of
12 another does not smoke ten times as many cigarettes -- it
13 would be impossible. The daily ration is fairly standard
14 regardless of income and the quality of cigarettes is well
15 nigh uniform. The same brands are found in the poolroom
16 as in the boardroom -- in the bunkhouse as in the penthouse.
17 The federal tobacco taxes on cigarettes are, in effect,
18 a substantial poll tax imposed on an arbitrarily selected
19 group -- the sort of levy which all authorities would
20 assign to the lowest place of all on the tax totem pole.

21 The reverse or negative aspects of the tax
22 likewise deserve analysis. At present levels, the federal
23 tobacco taxes on cigarettes must cause a substantially
24 decreased usage, as is evidenced by the fact that Ameri-
25 cans, with a substantially lower tax rate, smoke over
26 25% more than Canadians per capita. Those who are deterred
27 from smoking represent a net loss in satisfaction and
28 pleasure in the community.



1 Reasonable degrees of reliance on specific commodity taxes
2 We would not presume to brush aside the problems
3 which governments must face in meeting their budget require-
4 ments. We simply argue that at present the specific taxes
5 on tobacco products are higher than can be justified on
6 any reasonable grounds. We make this statement with a
7 full appreciation of the fact that there are no theoreti-
8 cal formulae which can be invoked to establish what proper
9 rates of taxation should be in a case of this sort.

10 Lacking any theoretical yardstick, we suggest
11 that the only practical course is to judge the rates of
12 federal excise taxes on cigarettes in Canada --

13 (a) by common sense,
14 (b) in comparison with other commodity taxes
15 now in effect in Canada,
16 (c) in comparison with federal tobacco taxes
17 in Canada at other periods, and
18 (d) in comparison with federal excise taxes
19 on cigarettes in other countries.

20
21 (a) Common sense

22 We make bold to observe that our federal toba-
23 cco taxes can be seen to be too high by simple common
24 sense. At the present time, federal tobacco taxes provide
25 approximately 7% of the federal budgetary tax revenue --
26 and this simple figure surely establishes the excessive
27 reliance of the Federal Government on specific commodity
28 taxes on this one product. This contrasts sharply with
29 the picture in the U.S.A., where tobacco taxes provide
30 2% of the federal budgetary tax revenue. We believe that



1 the federal excise taxes on tobacco would be generally
2 recognized as being completely unfair if the tax rates
3 were expressed on a basis which really indicated their
4 heavy impact. For example, if it were generally recognized
5 that these taxes on cigarettes in Canada now averaged
6 209% on the manufacturers' sales price (net of taxes) or
7 124% on the retail sales price (net of taxes), it would
8 be self-evident that this product is suffering from
9 excessive taxation. The calculation of the present rates
10 of federal excise taxes on cigarettes is shown in Appendix
11 A.

12 In this submission we must frequently offer
13 comparisons in terms of percentages, but we would like to
14 emphasize that the amounts of money involved in these
15 taxes are very large indeed. Many dramatic illustrations
16 of this fact could be given. To state just one, it will
17 be freely conceded that the building of the St. Lawrence
18 Seaway was a courageous venture on an enormous scale for
19 our country -- yet one year's federal excise taxes on
20 tobacco products would provide for 80% of the original
21 cost of this Seaway to the Canadian Government. Or again,
22 there is the simple fact that the amount collected in the
23 fiscal year 1961/62 by these federal excise taxes reached
24 the astronomical figure of \$410,000,000.

25
26 (b) Comparison with other commodity taxes now in effect
27 in Canada

28 Cigarettes are now the highest taxed product
29 in the country. We submit as Appendix B some comparisons
30 with other products. We believe all of these comparisons



1 are quite illuminating -- for example cigarettes 124% of
2 retail price net of taxes; distilled spirits 59% of
3 retail price net of taxes (including provincial markup);
4 soft drinks 9% of retail price net of taxes, and chocolates
5 etc., 8%. If automobiles were taxed at the same rate
6 as cigarettes, a family car now costing \$2,400 would cost
7 \$6,680.

8
9 (c) Comparison with federal tobacco taxes in Canada at
10 other periods.

11 We attach in Appendices C and D some comparisons
12 of the rates of increase between 1950 and the present day
13 for various tobacco commodities. Looking back over a
14 longer period, it could be shown that while the general
15 sales tax has increased 38% since prewar days (all of which
16 increase is due to the old age security tax), the federal
17 tobacco taxes on cigarettes are up 125% and on manufac-
18 tured tobacco 475%.

19 We might also point out that federal tobacco
20 taxes on cigarettes are close to what they were in the
21 emergency days of World War II, when there was obviously
22 justification for raising revenue by any possible means.
23 These taxes have not been materially higher at any time
24 in Canadian history, with the exception of the brief
25 period following the tax increases in 1951. The latter
26 increases were removed when it became clear that rates
27 had been pushed beyond the point of diminishing returns.
28 In that period the use of smuggled tobacco products be-
29 came acceptable to a large number of Canadians (a most
30 conclusive proof of the excessiveness of the tax rates.)



1 We have estimated that, in this unhappy period, 10% of
2 the cigarettes smoked in Canada were smuggled into the
3 country.

4 That the Government's reliance on federal toba-
5 cco taxes is not only excessive but is increasingly
6 excessive is demonstrated in Appendix E. It can be noted
7 that while federal tobacco taxes were 67% of all other
8 federal specific commodity taxes, excluding tobacco taxes
9 in the fiscal year 1951/52, this percentage has increased
10 over the years and rose to 150% in 1961/62.

11

12 (d) Comparison with federal excise taxes on cigarettes
13 in other countries

14 We suggest it is anomalous that federal excise
15 taxes on cigarettes are approximately twice as high in
16 Canada as they are in the United States. Taking federal
17 excise taxes alone, the comparative tax on a package of
18 twenty cigarettes is 20 cents in Canada and 8 cents in the
19 U.S.A. If State or Provincial taxes are included an
20 average must be struck as there is, of course, no unifor-
21 mity between different local authorities. With these
22 State or Provincial taxes included and averaged, the com-
23 parison is 22 cents in Canada and 12 cents in the U.S.A.

24 When making comparisons with other countries,
25 we believe that the U.S.A. which, like Canada, has a
26 completely domestic cigarette industry, provides the
27 fairest and most telling comparison. If one ranged abroad
28 many different situations would be encountered -- depend-
29 ing on local conditions such as type of government,
30 quantity of imported leaf tobacco, etc.



1 The tobacco industry

2 We consider it significant that the cigarette
3 industry is about as close to being a one-hundred-per-
4 cent Canadian operation as could possibly be imagined.
5 Very striking comparisons could be made with almost any
6 other industry. We therefore wish to emphasize that, in
7 thinking of the effects of excessive tobacco taxes, it is
8 wrong to concentrate entirely on the hardships imposed on
9 cigarette smokers. There is also the question of the
10 farmers, who suffer obvious loss of production when
11 excessive tax rates reduce per capita usage of tobacco.

12 We believe that the very heavy rates of federal
13 tobacco taxes imposed on cigarettes in Canada tend
14 demonstrably to reduce usage. In Appendix F we indicate
15 the effect on usage of some of the changes in rates in
16 recent years.

17 We might point out some of the achievements of
18 our industry. If this appears immodest, we can only con-
19 fess that we do take considerable pride in the way this
20 industry has operated.

21 Until 1925, practically all the tobacco used in
22 Canada was imported. Now our tobacco is virtually 100%
23 home grown. In the transition, an industry has been built
24 up which brings a cash crop to 6,000 farmers and wages
25 to 40,000 seasonal farm workers. It is the most important
26 cash crop grown in Ontario -- earning four times the value
27 of the entire Ontario fruit crop. The manufacturing end
28 of the industry employs 10,000 people and there are
29 90,000 retail outlets.

30 We suggest that the industry operates with



1 admirable efficiency. To Canadians, with their constant
2 experience of higher prices in Canada compared to the U.S.A.,
3 perhaps the most striking fact would be that Canadian
4 manufacturers' prices of cigarettes are virtually as low
5 as American on a net of taxes basis. We are not a high
6 cost industry appealing for help to survive.

7 In the ten-year period from 1952 to 1962, the
8 manufacturers' selling price (net of taxes) dropped 6%,
9 while the average hourly wage of tobacco workers rose 50%
10 and the cost of cigarette tobacco rose 25%. In the same
11 period the corresponding American average price has risen
12 by some 30%.

13
14 Alternative sources of revenue

15 In recommending reductions in taxes we would
16 like to suggest alternative sources of revenue. The
17 important point in any reform of taxes is to start with an
18 appreciation of the government's obligation to collect
19 revenue -- and this means in effect that proper tax reform
20 must start with control of expenditures. In our opinion
21 it is a pity that so much importance appears to be con-
22 centrated on the budget address -- when the really import-
23 ant debates should centre around approval of expenditures.

24 From our point of view, we believe the govern-
25 ment should reduce federal tobacco taxes on cigarettes,
26 and that the revenue thus lost could fairly be made up by
27 increasing almost any other tax -- a sweeping conclusion
28 which we reach through our conviction that cigarettes are
29 more excessively taxed than any other commodity.

30 While through the exigencies of budgetary



1 demands the tax authorities have done quite a job of
2 covering available sources of taxation, there are certain
3 untaxed areas which might warrant attention. For example,
4 while the general sales tax produces a very important
5 part of the government's revenue, there are quite wide
6 areas of exemptions -- such as the sale of services. An
7 increasing part of the nation's spending is now in the
8 service area. This is illustrated by the fact that
9 personal expenditure on consumer services expressed as a
10 percentage of personal expenditure on consumer goods and
11 services has risen from 30.7% in 1952 to 38.8% in 1962,
12 according to D.B.S. statistics. This area of services
13 must provide considerable possibilities for new tax
14 revenue.

15

16 Taxes on tobacco products other than cigarettes

17 In the interests of simplicity, the illustrations
18 we have given throughout this submission are based largely
19 on federal tobacco taxes on cigarettes -- which is much
20 the most important of the federal tobacco taxes. However
21 we would like to point out that similar criticisms can be
22 directed to the high rates of tax on cigars and other
23 tobacco products.

24

25 Recommendations

26 From the arguments advanced in this submission,
27 it will no doubt be appreciated that we believe a strong
28 case can be made in equity for the abolition of federal
29 tobacco taxes. If in an imperfect world this is out of the
30 question, we urge a very drastic reduction in these taxes.



1 Even if the taxes were cut in half, they would remain
2 higher than tobacco taxes in the U.S.A. -- and would also
3 remain at approximately ten times the level of the general
4 sales tax.

5 With all possible sympathy for the Government's
6 problems in raising revenue, surely no one in his right
7 mind could suggest that federal tobacco taxes on cigarettes
8 at 50% of present levels would be too low.

9 When submissions on a case such as this have
10 been made to the Minister of Finance, as has been done for
11 many years, it is understandable that matters of expediency
12 vie with matters of equity, but where a long term study
13 is being made it is hoped that federal tobacco taxes will
14 be studied in perspective. Disregarding any immediate
15 loss of revenue of the magnitude which would result from
16 our proposal, it is thought that the basic reasonableness
17 of the smokers' case cannot be questioned. We believe
18 that the case for a drastic reduction in federal tobacco
19 taxes on cigarettes should be accepted in principle and
20 a program of working steadily to this end should be
21 implemented without delay.

22 The recommendations we make in this submission
23 are of concern to a great many Canadians. As mentioned
24 above, half the adult population smokes and more people
25 pay tobacco taxes than income taxes.

26 In this presentation we have attempted to con-
27 fine ourselves to a few simple illustrations in support of
28 our contention that federal tobacco taxes are much too
29 high. If any further supporting statistics are required,
30 they can easily be produced. We would be very glad to



1 co-operate in any way in producing them.

2 We have set out in Appendix G summarized
3 information about our Company to illustrate our part in
4 the tobacco industry.

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30



IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

APPENDIX A

CALCULATION OF PRESENT RATES OF FEDERAL EXCISE TAXES ON CIGARETTES

	PER THOUSAND CIGARETTES	
	TAXES	TOTAL
Manufacturers' selling price net of taxes		4.78
Excise duty \$4.00 per thousand	4.00	<u>4.00</u>
		8.78
Sales tax on above at 11%	.97	.97
		9.75
Excise tax 2½ cents per five cigarettes	5.00	<u>5.00</u>
		9.97
		<u>14.76</u>
Wholesalers' and retailers' markup	3.25	
Suggested retail price		18.00
Federal excise taxes as a proportion of manufacturers' selling price net of taxes		
	\$9.97	<u>\$4.78</u>
		= 209%
Federal excise taxes as a proportion of suggested retail price net of taxes		
	\$ 9.97	<u>\$18.00 - 9.97</u>
		= 124%

COMPARATIVE RATES OF FEDERAL COMMODITY TAXATION INCLUDING SALES TAX
REPRESENTATIVE COMMODITIES — 1962

APPENDIX B

	RATE AS PROPORTION OF MANUFACTURERS' SELLING PRICE NET OF TAXES	RATE AS PROPORTION OF RETAIL PRICE	RATE AS PROPORTION OF RETAIL PRICE
Chocolates, Confectionery, etc. (1)	11%	7%	8%
Cigarettes (1)	209%	55%	124%
Manufactured Tobacco (1)	89%	38%	62%
Soft Drinks (1)	11%	8%	9%
Automobiles (2)	11%	8%	9%
Radios, T.V.'s, etc. (2)	26%	17%	20%
Malt Beer (3)	42%	24%	31%
Distilled Spirits (4)	197%	37%	59%

(1) Based on trade prices for representative standard products.

(2) Assuming the distributive trade markup to be 20% of the retail price.

(3) Based on \$3.75 case (24 small Ontario) and assuming the Provincial markup to be 20% of the retail price.

(4) Based on Distillery Industry Figures.



IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

APPENDIX C

RATES OF FEDERAL EXCISE TAXES* ON MANUFACTURED TOBACCO PRODUCTS

DATE OF CHANGE	CIGARETTES			CIGARS			MANUFACTURED TOBACCO		
	PER THOUSAND			PER THOUSAND			PER POUND		
	EXCISE TAX	EXCISE DUTY	SALES TAX	EXCISE TAX	EXCISE DUTY	SALES TAX	EXCISE TAX	EXCISE DUTY	SALES TAX
1950	\$4.00 (2)	\$6.00	8%	25% (1)	\$1.00	8%	\$0.32 (2)	\$0.35 (2)	8%
1951 April (X)	5.50	6.00	10%	25%	1.00	10%	.80	.35	10%
1952 April (Y)	4.00	6.00	10%	15%	1.00	10%	.80	.35	10%
1953 February (Y)	4.00	4.00	10%	15%	1.00	10%	.80	.35	10%
1959 April (X)	5.00	4.00	11%	15%	2.00	11%	.80	.35	11%

(1) Established in June 1946 to replace prewar system of specific graduated rates.
(2) Rate established in 1943 which was the wartime peak following successive tax increases from the prewar rates shown below.

PREWAR RATES	EXCISE TAX	EXCISE DUTY	SALES TAX
CIGARETTES	—	\$4.00	8%
MANUFACTURED TOBACCO	—	\$0.20	8%

* Comprised of Excise Tax, Excise Duty and Sales Tax applicable to Domestic Tobacco Products.
(X) Tax increase year—cigarettes
(Y) Tax decrease year—cigarettes



IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

ANGUS STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

APPENDIX D

TOTAL FEDERAL EXCISE TAXES* ON REPRESENTATIVE STANDARD TOBACCO PRODUCTS

DATE OF CHANGE	CIGARETTES PER THOUSAND	CIGARS PER THOUSAND 5¢ 10¢	MANUFACTURED TOBACCO PER POUND
1950	\$10.81 (1)	\$11.06	\$18.85
1951 April (X)	12.54	11.51	19.65
1951 October	12.60 (2)	11.51	19.65
1952 April (Y)	11.10	9.11	17.00
1953 February (Y)	8.86	9.11	17.00
1959 April (X)	9.97	10.46	18.71
1961 July	9.97	10.46	18.71
			1.36 (2)

(1) Prewar — Cigarettes
Mild Tobacco \$4.57
\$0.28

(2) Due to price adjustment

* Comprised of Excise Tax, Excise Duty and Sales Tax applicable to Domestic Tobacco Products.
(X) Tax increase year—cigarettes
(Y) Tax decrease year—cigarettes

APPENDIX E

TOTAL FEDERAL EXCISE TAXES (EXCLUDING SALES TAX)*
PAID BY THE CONSUMER OF MANUFACTURED TOBACCO PRODUCTS
COMPARED WITH OTHER REPRESENTATIVE COMMODITIES

(MILLIONS OF DOLLARS)

FISCAL YEAR	AUTOS	BEER	SPIRITS	TOTAL (EXCL. TOBACCO PRODUCTS)			TOTAL (EXCL. TOBACCO PRODUCTS)	MANUFACTURED TOBACCO PRODUCTS	AS A RATIO TO TOTAL (EXCLUD- ING TOBACCO PRODUCTS)
				RADIOS, T.V.'S, ETC.	CHOCOLATES, CONFECTION- ERY, ETC.	TIRES AND TUBES	ALL OTHERS		
1950-51	51.2	68.2	60.1	5.4	17.1	8.6	43.8	254.4	196.3
1951-52	77.9	77.6	45.9	7.9	30.0	11.7	57.3	308.3	78
1952-53	68.2	85.9	48.6	10.1	23.6	10.6	45.2	292.2	206.1
1953-54	82.1	83.5	69.2	15.9	23.4	10.4	30.2	314.7	74
1954-55	63.2	73.8	72.2	20.5	17.2	8.1	15.2	270.2	217.2
1955-56	62.5	80.7	77.5	21.6	17.0	.8	14.6	274.7	207.6
1956-57	69.3	83.1	86.2	17.8	17.9	—	15.9	290.2	150
1957-58	62.1	88.2	89.9	15.5	1.3	—	15.6	272.6	217.2
1958-59	47.3	83.1	96.6	15.5	—	—	16.2	258.7	111
1959-60	47.3	90.7	102.4	14.7	—	—	17.3	272.4	207.6
1960-61	44.9	91.0	108.5	12.8	—	—	19.4	330.0	150
1961-62 EST.								342.9	124
								367.1	245.0

* Comprised of Excise Tax and Excise Duty applicable to Domestic Products.

Source: Department of National Revenue Annual Reports.



APPENDIX F
VOLUME OF MANUFACTURED TOBACCO PRODUCTS CONSUMED IN CANADA
PER CAPITA

FISCAL YEAR	CIGARETTES		CIGARS		MANUFACTURED TOBACCO	
	UNITS	% CHANGE	UNITS	% CHANGE	POUNDS	% CHANGE
1950-51	1,244		14.8		2.14	
1951-52 (X)	1,048	-15.8	11.6	-21.6	2.18	+ 1.9
1952-53 (Y)	1,273	+21.5	14.6	+25.9	2.29	+ 5.0
1953-54 (Y)	1,448	+13.7	16.3	+11.6	1.87	-18.4
1954-55	1,470	+ 1.5	15.6	- 4.3	1.75	- 6.4
1955-56	1,589	+ 8.1	16.5	+ 5.8	1.62	- 7.4
1956-57	1,732	+ 9.0	16.4	- 0.6	1.42	-12.4
1957-58	1,830	+ 5.7	17.8	+ 8.5	1.36	- 4.2
1958-59	1,926	+ 5.2	18.7	+ 5.1	1.37	+ 0.7
1959-60 (X)	1,952	+ 1.3	18.5	- 1.1	1.38	+ 0.7
1960-61	1,942	- 0.6	19.2	+ 3.8	1.35	- 2.2
1961-62	2,044	+ 5.3	18.6	- 3.1	1.34	- 0.7

(X) Tax increase year—cigarettes
(Y) Tax decrease year—cigarettes
Source: Department of National Revenue Excise Figures and D.B.S. Population Estimates as of September 1
of each year.



1
2 APPENDIX G

3 A NOTE ABOUT THE COMPANY

5 Incorporated in 1912 to acquire a company of the
6 same name formed in 1908, Imperial Tobacco with its sub-
7 sidiaries is the largest manufacturer of cigarettes,
8 cigars and cut tobacco in Canada, supplying about 50% of
9 the Canadian market.

10 Manufacturing plants are located at Montreal,
11 Granby and Quebec City in Quebec and at Hamilton and
12 Guelph in Ontario. Cigar leaf is processed at Joliette,
13 P.Q., and cigars are manufactured at Montreal. Tobacco
14 leaf processing plants are maintained at Delhi and Aylmer,
15 Ontario. A wholly-owned subsidiary, United Cigar Stores
16 Ltd., owns retail stores in most provinces. Distributing
17 warehouses and sales offices are maintained in ten
18 principal cities from Newfoundland to British Columbia.

19 The Company has about 12,000 common shareholders
20 and employs approximately 6,000 people.

21 Imperial's brands and the brands of associated
22 companies include: Cigarettes: Player's, Sweet Caporal,
23 Winchester, Buckingham, Gold Flake, Pall Mall, Philip
24 Morris, Marlboro, Filter Player's, Kool (mentholated
25 filter-tipped), Cameo (mentholated filter-tipped), du
26 Maurier (filter-tipped), Viceroy (filter-tipped), Matinee
27 (filter-tipped), Peter Jackson (filter-tipped). Cigars:
28 House of Lords, White Owl, Ricardo, Robert Burns, Daily
29 Double, La Palina, Marguerite, Old Port, Peg Top.
30 Tobaccos: Player's, Ogdens, Old Virginia, Old Chum,



1 Piccadilly, Picobac, Alouette, Brahadi's (Mild Cavendish),
2 Philip Morris, La Salle, Imperial Mixture, Forest and
3 Stream, and Vogue.

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1

2

3

4 SUBMISSION

5 TO THE

6 ROYAL COMMISSION ON TAXATION

7 OTTAWA, ONTARIO

8

9

10

11

12

13

14 BY

15 H. DOUGLAS LIGHTFOOT, P. ENG.

16 734 Lake St. Louis Road

17 Ville de Lery, Quebec

18

19

20 March 1963

21

22

23

24

25

26

27

28

29

30



1 (A) SUMMARY

2 1. The cause of taxation is Government spending.

3 The following suggested changes in the taxation system
4 are aimed at the cause of taxation:

5 (a) Taxation must be brought out into the open
6 by the elimination of the compulsory with-
7 holding feature and elimination or sharp
8 reduction of sales taxes, excise taxes,
9 customs import duties and other miscellaneous
10 taxes, so that at least 95% of all taxes are
11 raised from one source, i.e. income taxes.

12 (b) Taxes must be distributed fairly through
13 the elimination of the progressive income
14 tax, and the institution of an income tax
15 system based on each person or corporation
16 paying the same percentage of income tax.

17 2. Such revisions as the above will provide a fair
18 taxation system and will give each citizen a better
19 opportunity to know and realize how much tax he pays.
20 As a result, each citizen will be able to more
21 realistically evaluate Government spending, the cause of
22 taxation.

24 (B) DISCUSSION

26 3. Any study of the taxation system must, of
27 necessity, consider the cause of taxation, which is
28 Government spending.

29 4. How does the taxation system influence Government
30 spending? The specific devices of the system are



1 "hidden" or "painless" taxation methods which make it
2 difficult for a citizen to know and to realize how much
3 tax he pays, and by taxing one group of citizens for the
4 benefit of another group.

5. These two methods encourage our citizens to
6 continually ask for more Government spending because
7 they do not know how much their taxes will increase, or
8 because they believe that someone else's taxes will
9 increase more than theirs.

10. The common methods used to hide taxes or make
11 then "painless" are the compulsory withholding feature,
12 sales and excise taxes, and to some extent customs
13 import duties. Many people find the withholding feature
14 convenient, and this would justify maintaining it but
15 only on a voluntary basis. Elimination or sharp
16 reduction of sales and excise taxes as well as customs
17 import duties is necessary so that our taxes may brought
18 out into the open. I also believe that collecting all
19 taxes from one source, i.e. income tax, is desirable
20 because the effect of all tax changes can be directly
21 and easily determined by each individual.

22. The most obvious example of taxing one group for
23 the benefit of another is the progressive income tax.
24. This scheme is unfair. I believe a fair income tax
25 scheme is one in which everyone pays the same percentage
26 of tax on their income. By everyone, I mean corporations
27 as well as individuals. When compared with the current
28 system, such a scheme, apart from being fair, will
29 provide corporations with more funds for modernization



1 and expansion, put them in a better competitive position
2 in world markets, and eliminate the only justification
3 for customs import duties.

4 (C) RECOMMENDATIONS
5

6 8. My recommendations are:

7 (a) Elimination or reduction of most other forms
8 of taxation so that income tax provides at
9 least 95% of Government revenues. Also
10 removal of the compulsory withholding feature.
11 (b) Revision of the income tax structure so that
12 each individual and corporation pays the
13 same percentage of income tax.

14 9. The proposals recommended are designed to make
15 the taxation system fair and to simplify it so that each
16 individual can easily and directly evaluate tax changes.
17

18
19
20 H. D. LIGHTFOOT
21
22
23
24
25
26
27
28
29
30

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

TORONTO
ONT.

VOLUME No.: 11A DATE: May 1, 1963

11A - 11th day of the month of May, 1963

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO., LTD.
BOARD OF TRADE BLDG.
11 ADELAIDE ST. W.
TORONTO

364-5865 364-7381 364-7383



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1

2

3

4 BRIEF

5 o n

6 TAXATION

7

8

9

10

11 Submitted to

12 THE ROYAL COMMISSION ON TAXATION

13

14 December, 1962

15

16

17

18

19

by

20

21 FRANK O'HEARN

22

Director

23

THE OFFICE OF VALUATION AND EXCHANGE

24

(A Private Research Bureau)

25

—

27

59 Bethune Blvd.,
Scarboro, Ont.

29

30

Copyright - Canada - 1962



1 BRIEF TO THE ROYAL COMMISSION ON TAXATION

2 S U M M A R Y

3

4 The Prime Minister and the Royal Commission on
5 Taxation have quite properly invited anyone having any
6 ideas or proposals on taxation to file Briefs with the
7 Commission and appear before it at public hearings.

8 Accordingly, I beg to submit this Brief to the
9 Commission for its consideration and recommendations in
10 connection therewith and for public hearings in regard
11 thereto.

12 I would state first of all, that this Brief does
13 not concern itself particularly with the various forms of
14 taxation presently in use or the various sources thereof,
15 nor with the various purposes for which the current taxa-
16 tion levies were assessed. Nor does it concern itself
17 particularly whether the taxation is levied by the
18 Federal, Provincial or Municipal Governments, for
19 obviously taxes are taxes regardless of who collects
20 them or what purposes they are collected for or who pays
21 them.

22 Rather, this Brief concerns itself mainly with
23 the amount of taxation levied and collected in and with
24 the use to which the tax money was put, and particularly
25 with the retention of the tax money in the market as part
26 of our capital and national money supply, instead of
27 having a large portion of it kept out of circulation
28 through the prevailing policy of deficitism being pursued
29 by the governments and banks in reporting their overdrafts
30 and deficits.



1 Obviously, these are exceedingly important phases of
2 taxation, and it is with these aspects of taxation that
3 we have conducted an extensive and expensive research
4 over the years.

5 For the information of this Commission, we would
6 say that in Briefs devised to improve our existing
7 taxation, banking accounting and monetary procedures
8 which we have already submitted to our government and to
9 the Royal Commission on Banking and Finance, we submitted
10 various alternative methods by the use of which our
11 governments could have gotten billions of dollars more
12 than they did, had they encashed their tax collections
13 properly, and could have collected billions of dollars
14 less taxes from the public than they actually collected.
15 Any of the ways we offered would have worked out to the
16 benefit of the government and taxpayers without any
17 increased costs to anybody.

18 In our Brief, we summarize the various new
19 plans we've submitted which could be properly used by
20 our governments to relieve the burdensome taxes now
21 intolerably inflating our costs of production and living
22 costs far beyond the levies warranted had the tax methods
23 and tax money been properly handled and reported by our
24 governments and banks.

25 In our Brief, too, we detail the facts we feel
26 the Commission should bear in mind when considering our
27 proposals.

28 We will gladly furnish any further information
29 hereinregard that the Commissioners may desire, and will
30 support this Brief at public hearings too.



1 Owing to the great cost to us of developing our
2 Copyrighted Formula over the years, we submit that if any
3 of our governments or banks make use thereof to their own
4 advantage or to the advantage of the public, such use
5 should be on an attributable basis.

6 FRANK O'HEARN
7 Director
8 The Office of Valuation and Exchange
9 (A Private Research Bureau)

10 -----
11 These are the various new plans referred to in the fore-
12 going Summary:

13 1 - According to the new method of encashing taxpayers
14 cheques as outlined in our Copyrighted Formula, if our
15 governments had enforced their rights to get credit from
16 the taxpayers banks, either direct or indirectly, for
17 the tax payments, in addition to the credits they got
18 from their own banks for the tax deposits, they would by
19 now have gotten more than enough bank funds to wipe out
20 their accumulated cash deficits and shortages, and give
21 them a substantial surplus instead. It's not too late
22 of course, for our governments to adopt this new tax
23 encashing plan now for they would soon accumulate a
24 surplus of bank funds from which they could turn tax cred-
25 its over to the taxpayers and so reduce their intoler-
26 able tax burdens. This plan would cut the levies on the
27 taxpayers in half, up to a point, and cut production and
28 living costs accordingly.

29 2 - Another alternative tax plan as set out in our
30 Formula, provides for our governments to collect in



1 additional capital up to a certain portion of their
2 tax requirements, by levying a special tax on the banks,
3 instead of on the public. This method would also get
4 back from the banks the tax money needed to adjust the
5 governments misreported loan and deposit accounts.

6 This proposed tax on the banks would not be
7 a tax on the bank shareholders or depositors. Rather,
8 it would be a tax on the banks themselves which would
9 be payable by way of deposits to be set up by them in
10 favor of the governments. The deposits would be set up
11 on both sides of the banking accounts and statements.
12 They would set up both asset and liability deposits, and
13 in this way, the payment to the governments would be
14 a costless procedure. This proposal would permit tax
15 reductions, and debt reductions too, all without cost
16 to the banks, the governments or taxpayers.

17 3 - As an alternative to taxation for a portion of its
18 financial requirements, the Federal Government could
19 have properly implemented still another of our tax plans
20 wherein we submit that it could properly issue cheques
21 drawn upon itself in payment of its obligations, ruling
22 that all such government cheques would be accepted by
23 the banks as cash deposits in lieu of the issue of
24 government cheques could properly be accepted by the banks
25 as a new form of currency and be held by them as cash
26 or deposit assets to offset the deposit liabilities
27 they would set up in favor of the Payees. The govern-
28 ment cheques wouldn't be returned as vouchers and the
29 amounts wouldn't be charged against government deposit
30 balances, in the usual manner.



1 4 - Alternately, our tax burden could be greatly light-
2 ened if only the government would instruct its bankers to
3 accept tax cheques up to an agreed upon amount, for
4 deposit as cash instead of as a charge against the tax-
5 payers, or to put it another way, to take the tax cheques
6 in from the government, when properly endorsed, as cash
7 in exchange for bank currency.

8 5 - According to another of the new tax plans outlined
9 in our Formula, if the governments had insisted on get-
10 ting compensation from their bankers for the extra
11 amounts they cancelled from the government deposit accounts
12 over and above the amounts they were entitled to
13 cancel to offset and cancel the government indebted-
14 ness to them, the governments obviously would by now
15 have gotten more than enough bank funds to wipe out
16 their accumulated deficits and shortages, and have given
17 them substantial surpluses instead.

18 Any of the foregoing tax plans would have
19 worked out to the benefit of the governments and tax-
20 payers without any cost to the banks. This latter is
21 clear because the banks got the extra consideration
22 needed for them to credit the extra amounts to the
23 governments without any cost to themselves. We've un-
24 covered the fact that the banks got full consideration
25 once by way of the Bank of Canada currency which they
26 collected in from taxpayers banks, and got an addition-
27 al consideration by way of reduction in their deposit
28 liabilities to the taxpayers, which liability deposit
29 balances they should have transferred to the govern-
30 ments involved. The banks got both the bank currency,



1 and the asset deposits needed to offset the extra
2 liabilities our governments were entitled to get from
3 them in exchange.

4 It should be particularly noted that no taxes
5 have been levied on either the banks or their customers
6 on the huge amounts of unreported surplus capital which
7 became available to them from their overdraft banking trans-
8 actions. This explains the necessity for the proposals
9 submitted in our Briefs. Neither are any sizable amounts
10 of taxation being levied for retirement of the public
11 debts or deficits. It's time to decide whether to
12 repudiate the public debt obligations. Delay only
13 adds to the problem.

14 _____
15 The following are the facts referred to in the fore-
16 going Summary which we submit to the Commission in con-
17 junction with the foregoing plans:

18 6 - That our Federal, Provincial and Municipal govern-
19 ments grossly over-taxed and over-indebted us to a
20 total of billions of dollars, and diverted their extra
21 collections to their bankers, ostensibly to cover over-
22 drafts and loans. Moreover, they did so without getting
23 any consideration from their bankers in return for the
24 mis-appropriated tax money.

25 7 - That our governments, in other words, covered their
26 bank loan and overdraft debts twice over; once with cur-
27 rency and once by transfer from their deposit accounts.
28 That is, our governments permitted their bankers to can-
29 cel their deposit balances in addition to paying them
30 cash to cover their loans and overdrafts. This pro-



1 vided the banks with huge amounts of tax money they
2 were not entitled to, but inasmuch as they failed to
3 capitalize or report the extra consideration in their
4 tax reports and banking statements, and failed to pay
5 any taxes thereon, it's clear that the credit balances
6 disclosed in their mis-reported loan accounts, are still
7 owing by them to the governments.

8 - That our governments fail to collect for the tax
9 cheques from the taxpayers banks, in addition to collect-
10 ing from their own bankers, and consequently get bank
11 funds for only half the amounts they should get, up to
12 the limit of the total amounts involved.

13 - That had our governments collected from the tax-
14 payers banks in addition to collecting from their own
15 bankers too, they could have operated as they did, with
16 billions of dollars less taxation than they actually
17 levied and collected.

18 - That consequently, our governments are morally
19 and legally bound to encash the extra amounts owing to
20 them by their bankers, and refund the money to the
21 taxpayers or use the extra money for the public benefit.

22 - That by turning the extra amounts of tax money over
23 to their bankers without getting any consideration in
24 return, and by failing to have the banks report the
25 extra amounts as taxable surplus capital, the huge
26 amount of tax money involved was completely wiped out.
27 The government deposit balances were cancelled and taken
28 out of the money market to offset the banks own overdrafts.
29 The tax money was tangible and real enough when it was
30 paid to our governments and turned over to the banks,



1 but it was mis-used by the banks to cover their own
2 overdrafts, instead of covering them with bank funds.
3 12 - That our aim now should be to have the extra loan
4 account balances due the governments encashed in the
5 public interest, and release it so as to provide the extra
6 capital the public and governments are always clamor-
7 ing for, and which they so badly need for public and
8 private purposes.

9 13 - That in this respect, it's clear that the banking
10 and monetary reforms proposed in our Brief to the Royal
11 Commission on Banking and Finance should be implemented
12 along with the tax reforms proposed herein, for it's
13 obvious that if the money the governments and banks are
14 now holding out on us isn't used to provide the capital
15 we need, our governments won't be able to get the tax
16 revenues they must get from us to meet their obligations
17 for we couldn't pay it to them.

18 14 - From the foregoing, it's clear that we are being
19 deprived of billions of dollars of hard-earned tax money
20 because of the foolish policy of deficitism imposed on
21 us by the powers that be. We must free ourselves from
22 their immature theory that they can with impunity
23 perpetually operate our Economy on a cash deficit or
24 overdraft basis at the expense of the unsuspecting tax-
25 payers. For our own security and safety we must insist
26 that the new capital which accrued to our governments
27 from their banking transactions and which is presently
28 standing to their credit in their mis-reported loan
29 accounts, must be reported and used for public purposes
30 in lieu of further taxation, until their contra accounts



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

10

1 are properly balanced up.

2 With these facts and new plans before this
3 Commission, I hope the Commissioners will see fit to take
4 advantage of the new tax plans hereinbefore set out, in
5 the public interest. By so doing, the huge shortage
6 in the deposit accounts and pockets of the Canadian
7 taxpayers and general public may be recovered and made
8 good.

9 Everybody stands to benefit and nobody could
10 possibly lose by the adoption of our new tax plans.
11 It would be folly to further deny ourselves the tax
12 money we've foolishly done ourselves out of in the
13 foregoing manner.

14
15 FRANK O'HEARN
16 Director

17 The Office of Valuation and Exchange
(A Private Research Bureau)

18 59 Bethune Blvd.,

19 Scarborough, Ont.

20

21

22

23

24

25

26

27

28

29

30



ANGUS, STONEHOUSE & CO LTD
TORONTO, ONTARIO

1

2

3 ROYAL COMMISSION ON TAXATION

4 P.C. 1962 - 1334

5

6

7

8

9 BRIEF

10 on behalf of

11 Independent Insurance Agents, Members of

12 Canadian Federation of Insurance Agents and Brokers

13 Associations

14 Toronto, March 25, 1963

15

16

17

18

19

20

21 Fred G. Funston, FIIC

22 Secretary-Manager

23 Canadian Federation of

24 Insurance Agents & Brokers

25 Associations

26

27

28

29

30



1 To the Chairman and Members of the Royal Commission on
2 Taxation:

3
4 1. This brief is submitted on behalf of the Canadian
5 Federation of Insurance Agents and Brokers
6 Associations, a corporation under Part II of the
7 Companies Act, 1952, by Letters Patent dated
8 January 12, 1959, and its Member Associations as
9 listed hereunder:

10 Insurance Agents' Association of Alberta
11 Insurance Agents' Association of British Columbia
12 Insurance Agents' Association of Manitoba
13 Insurance Agents' of New Brunswick
14 Newfoundland Insurance Agents' Association
15 Insurance Agents' Association of Nova Scotia
16 Ontario Insurance Agents' Association
17 Insurance Agents' Association of Prince Edward Island
18 Insurance Brokers' Association of the Province of
19 Quebec
20 Insurance Agents' Association of Saskatchewan
21 Toronto Insurance Conference

22 2. Canadian Federation of Insurance Agents and Brokers
23 Associations is a Federation of Associations comprising
24 a total membership of some 7,500 individual insurance
25 agents and brokers, engaged in the "other than life"
26 insurance field.

27 3. These individuals operate or are employed in business
28 concerns. In the main, their incomes are derived
29 from commission earned on the premiums of insurance
30 policies they place as independent contractors on



1 behalf of their customers, with insurers of many
2 types, i.e., Joint Stock Companies, Mutuals and
3 Underwriting groups, such as Lloyds. In their
4 respective capacities they are required to pay all
5 of the taxes usual to such concerns and as individuals.

6 4. In a brief to the Royal Commission on Taxation on
7 behalf of Joint Stock Companies, General Members of
8 the Canadian Underwriters' Association, it is alleged
9 that Mutuals and cooperatives operate businesses and
10 that they derive income therefrom, and that by
11 distributing this income to the extent that it exceeds
12 the expenses of operating the businesses to the
13 owners of the businesses as policy dividends or as
14 patronage dividends, they do not contribute their
15 fair proportion to the consolidated Revenue of this
16 country, thus placing an additional burden on others
17 who must pay taxes, including the individual members
18 of Member Associations of our Federation.

19 5. The Canadian Federation of Insurance Agents and
20 Brokers Association is in agreement with the
21 allegations set out in the brief abovementioned and
22 the conclusions itemized on page 19 thereof, which
23 are as follows:

24 "A. There is no evidence that there is a trend to
25 reduce expenditure by Government with a resulting
26 drop in the level of taxation but rather the
27 reverse,

28 "B. and no evidence that Income Tax will not continue
29 to bear substantial part of the tax burden of
30 Canada.



1 "C. If this is so the effect of this present
2 discrimination in taxation will tend to be
3 accentuated,
4 "D. rendering Joint Stock Companies less able to
5 compete,
6 "E. and all taxpayers, Joint Stock Corporations
7 and individuals subject to a progressive
8 increase in the burden of taxation."

9

10

11

12

13

14

15

16

17

18

Fred G. Funston, FIIC

19

Secretary-Manager,

20

Canadian Federation of

21

Insurance Agents & Brokers

22

Associations

23

24

25

26

27

28

29

30



1 REPRESENTATION SUBMITTED BY:

2 WOLFE D. GOODMAN,
3 Suite 314,
34 Richmond Street, West,
4 Toronto, Ontario.

5 The third area concerning which this Commission
6 has been instructed to provide information and make
7 recommendations relates to "provisions in existing laws
8 which may have given rise over the years to anomalies or
9 inequities or which may require action to close loopholes
10 which permit the use of devices to avoid fair taxation".
11 This is an area in which the tax practitioner has a
12 special interest. However, deciding what are anomalies,
13 inequities or loopholes is no easy matter, for good
14 reasons can usually be advanced in support of the
15 principle underlying each provision which is examined.
16 Nevertheless I believe that particularly in the income
17 tax field the failure to resolve some basic problems
18 according to general principle and the attempt to deal
19 with only some of the manifestations of these problems
20 by specific legislation have created situations which
21 warrant the attention of the Commission.

22 The failure to enact legislation applicable to
23 all taxpayers to permit optional averaging of fluctuating
24 incomes has led to numerous examples of piecemeal relief
25 extended to various classes of taxpayers. Not only does
26 such piecemeal relief discriminate against other tax-
27 payers who are equally deserving, but it also provides
28 benefits unintended by Parliament for those who arrange
29 their affairs so as to take the fullest advantage of
30 the legislation.



1 Similarly, the failure to deal with the problem
2 of corporate surpluses according to some broad general
3 principle can be contrasted with the gradual introduction
4 into the Income Tax Act of a considerable number of
5 approved statutory methods of withdrawing funds from a
6 company at various flat rates of tax (Section 105,
7 Section 105A, Section 105B, Section 105C) in violation
8 of the principle of progressive taxation. It is not
9 surprising that some taxpayers and their advisers have
10 concluded that there is no reason why even these flat
11 rates of tax need be paid, when the statute spells out
12 quite plainly for those who can read it that other methods
13 of withdrawing funds are available which are completely
14 tax-free. The ineffectiveness of the existing "designated
15 surplus" legislation is all too apparent.

16 The Income Tax Act
17

18 A. Mitigation of the tax penalty on fluctuating incomes

19 In one of its first publications "The Mitigation
20 of the Tax Penalty on Fluctuating or Irregular Incomes",
21 by Professor John Willis, published in 1951, the Canadian
22 Tax Foundation sought to explore some of the problems
23 which arise when a steeply progressive income tax is
24 imposed on persons with fluctuating or irregular incomes.
25 The problem is not difficult to state. Why should Jones,
26 with taxable income of \$3,000 in 1960, \$4,000 in 1961
27 and \$100,000 in 1962 pay a total income tax of \$52,870
28 for these three years, while Smith, with a taxable income
29 of \$35,667 in each of these years, amounting to the
30 same total income of \$107,000 pays only \$41,979?



1 The present system operates most unfairly on
2 persons who receive income in a single year which
3 represents the fruits of several years' activity. In
4 many cases such persons could have avoided the worst
5 effects of the progressive income tax by incorporating
6 their business activities, but in other cases the cure
7 would be worse than the disease, by reason of the high
8 rate of tax on corporate earnings in excess of \$35,000
9 per year. In any event, incorporation would do nothing
10 to alleviate the hardship suffered by two classes of
11 taxpayers:

12 (1) Those who in good faith (and perhaps on the advice
13 of tax counsel) believe that a gain which they realized
14 on the sale of property was on capital account, but who
15 have subsequently learned, perhaps after costly litigation,
16 that it was ordinary income. In view of the uncertainties
17 inherent in the distinction between capital gains and
18 ordinary income, the tax penalty for such an error in
19 judgment seems altogether disproportionate.

20 (2) Those who are unable to incorporate, by reason
21 of the rules of the professional bodies to which they
22 belong, such as lawyers, doctors, dentists, architects
23 and accountants.

24 Parliament has already recognized the unfair-
25 ness of subjecting certain types of income to the ordinary
26 rates of tax, when such income represents the fruits
27 of several years' work. However, by legislating in a
28 piecemeal fashion, Parliament has left other equally
29 deserving cases unrelieved, while it has opened unintended
30 loopholes for others. Four examples may be given:



1 (1) Section 43-spreading back of recaptured depreciation

2 Where a taxpayer sells depreciable property
3 in circumstances which subject him to recapture of
4 capital cost allowances under Section 20(1), he is
5 ordinarily allowed an election under Section 43 to spread
6 the recaptured depreciation back over the preceding five
7 years. The purpose of this provision is, of course, to
8 spread the excess depreciation which the taxpayer has
9 taken back over a number of years roughly approximating
10 that during which the excess depreciation was taken.
11 However, it is obvious that this method cannot do justice
12 to the person who bought depreciable property in 1949
13 and sold it in 1962, since the excess depreciation which
14 he has taken relates to the whole 13-year period and
15 not to the last five years alone. On the other hand,
16 Section 43 may confer unintended benefits on a person
17 who bought depreciable property in 1961 and sold it in
18 1962, since he is entitled to spread the excess deprecia-
19 tion back over the years 1957 to 1961, inclusive, as
20 long as he was resident in Canada during those years, even
21 though he did not acquire the property until 1961.

22 (2) Section 36-lump sum payments

23 The provisions in Section 36 for taxation of a
24 variety of lump sum payments out of a pension fund, profit
25 sharing plan or deferred profit sharing plan, retirement
26 benefits, payments for loss of office and death benefits
27 quite properly recognize that it is inequitable to subject
28 these sums to progressive rates of tax in a single year.
29 However, the method of relief adopted, to subject them to
30 the average rate of income tax of the three preceding



1 years, encourage tax avoidance by anyone who is in a
2 position to control the date on which such sums will be
3 received. If such a person could refrain from having any
4 taxable income at all for three years, unlimited sums
5 could be withdrawn, say, as retirement benefits without
6 payment of personal tax. This does not mean that a person
7 must starve for three years in order to obtain such a
8 benefit. Many persons whose cash incomes are large, but
9 whose taxable incomes may be negligible by reason of
10 large depreciation allowances, may be the unintended
11 beneficiaries of Parliament's largess. Other persons may
12 find it desirable to borrow money on the strength of
13 the lump sum payment which is coming to them, rather than
14 receiving taxable income during the three-year waiting
15 period.

16 (3) Section 37(2) and (3)-election on incorporation of
a business

18 Section 37(2) and (3) allow an individual who
19 has incorporated his business and who has become an
20 employee of his own company to avoid having to pay tax
21 in a single year at regular rates on more than twelve
22 months' income. If, for example, Jones has carried on
23 business as a sole proprietor, with a fiscal year ending
24 on January 31st in each year, and if he incorporates his
25 company on February 1st, and becomes an employee, these
26 provisions ensure that he will not pay tax at ordinary
27 rates both on the twelfth-month's income from his
28 business (for the year ending January 31st) and on the
29 eleven-months' income from his employment (for the period
30 February 1st to December 31st). He is allowed to pay





1 tax at ordinary rates on 12/23rd of his total income and
2 to pay tax in the same effective rate on the remaining
3 11/23rds. However, this type of averaging device may
4 encourage tax avoidance. If Jones chooses to draw no
5 salary from his company during the first calendar year
6 and borrows from the company in order to live, he can
7 reduce his income tax substantially. If, for example,
8 he earned \$20,000 from his unincorporated business during
9 the 12-month period ending January 31st, 1962 and if his
10 personal deductions totalled \$3,000, he would pay tax of
11 only \$2,814.00 under Section 37(2) and (3) by using this
12 technique, even though he would have paid \$5,060.00 for
13 the year 1962, had he not incorporated in that year.

14 (4) Section 85A(2)-employees' stock rights

15 The most extreme example of an averaging device
16 arises under Section 85A(2), which permits a special
17 alternative method of paying tax on rights granted to
18 employees or officers of a company to purchase stock of
19 the company. The section permits the employee to pay tax
20 at his average rate of the previous three years, less 20%
21 That is, if an executive has drawn a salary of \$20,000
22 per year for the past three years, 1960, 1961 and 1962,
23 and if his personal deductions total \$3,000 in each year,
24 his income tax in those years would have been \$4,970
25 per year, amounting to 24.85% of his income. Consequently,
26 if he exercises a stock right in 1963 he will pay tax at
27 a flat rate of only 4.85% on the value of his right,
28 whether it is worth \$100,000 or \$1,000,000. If he can
29 arrange to reduce his average rate of tax below 20% for
30



1 the preceding three years, he can escape paying taxes
2 altogether on his stock right.

3 Other examples of unreasonable averaging devices
4 could be given, some perhaps even more extreme than those
5 cited. These illustrations are intended to point out the
6 dangers inherent in piecemeal measures of tax relief for
7 a problem which is of general significance, such as the
8 impact of progressive rates of taxation on fluctuating
9 or irregular incomes. It is submitted that the time has
10 now come to sweep away these piecemeal measures, which
11 confer such generous reliefs on a narrow class of
12 taxpayers, while denying relief to many others whose
13 cases involve equal hardship. The solution proposed by
14 Professor Willis in his classic study of this problem
15 still appears to be the most equitable one. He suggested
16 that a system of optional block averaging of incomes over
17 a period of years be instituted for all taxpayers, similar
18 to that presently permitted farmers and fishermen under
19 Section 42. For administrative reasons, in order to
20 avoid an excessive number of small claims, he suggested
21 that no relief be granted except where the tax payable
22 on the ordinary basis for the years of averaging exceeded
23 by at least 10% the tax which would have been payable,
24 had the total income of the period been earned in equal
25 amounts each year.

26 B. The Problem of Corporate Surpluses

27
28 Many attempts have been made to explain and
29 to suggest remedies for the tax problems arising from the
30 undistributed surpluses of corporations. The problem is





1 certainly extremely difficult, since it impinges upon
2 many aspects of tax policy and procedure. Nevertheless,
3 it is hoped that the following comments may be of some
4 assistance:

5 1. The problem of corporate surpluses arises
6 wherever undistributed corporate income is not taxed
7 immediately in the hands of shareholders or where there
8 are not substantial tax penalties imposed for the
9 unnecessary retention of corporate surpluses. Canada
10 is unusually liberal among English-speaking countries
11 in not presently having some penalty provisions to force
12 distribution of unduly large corporate surpluses.
13 Between 1933 and 1950 we had Section 13 of the Income War
14 Tax Act and its successor, Section 9(6) of the Income
15 Tax Act, which entitled the Minister of National Revenue
16 to treat a portion of a company's surplus as though it
17 had been distributed to shareholders, where it was being
18 retained beyond the reasonable requirements of the
19 company's business, but it is understood that this power
20 was hardly ever exercised. This legislation was
21 repealed in 1950 when Section 95A of the 1948 Income Tax
22 Act (now Section 105 of the Income Tax Act) was enacted.
23 The present legislation might be described by using a
24 carrot instead of a stick to encourage corporate distri-
25 butions. (See J. Harvey Perry - Taxation in Canada -
26 Second edition, at page 82).

27 In Australia, Division 7 of the Income Tax
28 and Social Services Contribution Assessment Act provides
29 for automatic imposition of a penalty tax of $37\frac{1}{2}\%$ on the
30 retention by private companies of profits of over £4,000



1 per year. (See Challoner and Collins-Income Tax Law
2 and Practice (Commonwealth) at page 525 and ff.)

3 In the United Kingdom, surtax directions may
4 be made under Sections 245 and 264 of the Income Tax
5 Act on companies controlled by five or fewer persons. Such
6 directions have the effect of subjecting the shareholders
7 to immediate taxation on that part of the undistributed
8 income of the company which has been unreasonably
9 accumulated. (See Brudno and Bowen-Taxation in the
10 United Kingdom - page 371 and ff)

11 In the United States of America, Sections 531
12 to 537 of the 1954 Internal Revenue Code (the successor
13 to Section 102 of the 1939 Code) permits the Commissioner
14 to assess a penalty tax of $27\frac{1}{2}\%$ to $38\frac{1}{2}\%$ on any company
15 which is formed or availed of for the purpose of avoiding
16 income tax on its shareholders by permitting earnings
17 and profits to accumulate beyond the reasonable needs
18 of the business instead of being divided or distributed.

19 2. As long as both capital gains and intercorporate
20 dividends are exempt from tax, satisfactory solutions
21 of this problem are extremely difficult and tax avoidance
22 devices must be expected. There is little point in
23 detailing in this submission all the various techniques
24 in use for avoiding personal tax upon the distribution
25 of corporate surpluses, since these were dealt with
26 exhaustively in an address given by Mr. H. Heward Stikeman,
27 Q.C. at the 1961 Canadian Tax Conference in Montreal.
28 Suffice to say that almost all of them would become
29 considerably less attractive to taxpayers if inter-
30 corporate dividends were subject to some tax, and the



1 higher the rate of tax the less attractive such devices
2 would become.

3 3. To impose a general tax on intercorporate
4 dividends would interfere with the fundamental principle
5 of our Income Tax Act that income from corporations is to
6 be taxed only once at the corporate level and once at the
7 individual level (subject to the dividend tax credit
8 under Section 38). However, this principle would not
9 be infringed if income tax were imposed only upon the
10 excess of dividends received by a corporation in any year
11 over dividends paid by it.

12 For example, a common method of tax and estate
13 planning involves the formation of a holding company to
14 purchase the common shares of an operating company from
15 the principal shareholder. If Jones, who owns all the
16 shares of Jones Manufacturing Limited, finds that these
17 shares are increasing substantially in value, he is
18 frequently encouraged by his tax advisors to sell his
19 common shares at their appraised value to a new holding
20 company, which we may call Jones Holdings Limited, in
21 which the common shares are held by trusts for his
22 children. Jones may retain control of Jones Manufacturing
23 Limited by having it issue to him a sufficient number of
24 non-participating voting preference shares to enable him
25 to outvote the common shareholders. He has now "frozen"
26 the value of his estate, since all future increases in
27 the value of the business of Jones Manufacturing Limited
28 will accrue to the benefit of his children rather than
29 to his benefit. His interest in the business now consists
30 only of his non-participating voting preference shares in



1 Jones Manufacturing Limited and the monies owed him by
2 Jones Holdings Limited.

3 The estate planning objectives of this arrangement
4 are probably relatively unobjectionable, but the
5 income tax consequences may raise difficult questions
6 of tax policy. Jones Holdings Limited is not a personal
7 corporation as the law now stands. Accordingly, dividends
8 declared by Jones Manufacturing Limited can be received
9 by Jones Holdings Limited tax-free under Section 28(1)(a)
10 as long as they are paid only out of current earnings.
11 These monies can then be paid to Jones on account of the
12 purchase price of his shares and they will also escape
13 taxation in his hands, since they represent capital gains
14 resulting from the sale of his shares. Since Jones
15 Holdings Limited will normally be expected to pay Jones
16 in full before making any distributions by way of dividend
17 to the trusts for his children, it will be many years
18 before the Taxation Division will collect any personal
19 income tax at all from anyone in respect of the dividends
20 declared by Jones Manufacturing Limited.

21 It should be noted that the example which has
22 been given is not even one which the ordinary informed
23 individual would call a "bail-out" or "dividend stripping".
24 The loss to the Revenue is really of the same nature,
25 although in a more extreme form, when ways are found to
26 avoid the "designated surplus" provisions of Section 28(2)
27 of the Income Tax Act. For example, if Jones Manufacturing
28 Limited had a large cash surplus which was ready for
29 distribution, it would be possible even to distribute
30 this surplus tax-free under present law by making only



1 slight variations in the previous example. Instead of
2 merely issuing voting preference shares to Jones to
3 enable him to retain control of Jones Manufacturing
4 Limited, the company could also convert all the issued
5 common shares into non-voting common shares, (or,
6 participating preference shares, as they are called in
7 Ontario). Then, when Jones Holdings Limited buys these
8 non-voting shares from Jones, no "designated surplus"
9 is created. It will therefore be possible for Jones
10 Manufacturing Limited to declare dividends equal to the
11 whole of its accumulated surplus (and not merely out of
12 current earnings), which dividends will be received tax-
13 free by Jones Holdings Limited and paid to Jones as
14 capital gains, a classic case of "bail-out" or "dividend
15 stripping".

16 Unless measures are devised to impose some
17 income tax upon these intercorporate dividends when they
18 are received by Jones Holdings Limited, the loss to the
19 Revenue will be considerable, since there seems little
20 likelihood that these sums will ever be taxed at personal
21 rates in the hands of the Jones' children. A tax at a
22 flat rate of, say, 25% on the excess of dividends received
23 by Jones Holdings Limited over dividends paid by it
24 would assist in closing a major loophole in the present
25 legislation. It would impose no penalty whatever upon
the holding company which declares dividends each year
at least equal to the dividends which it receives. As a
matter of equity, some provisions would be required in
order to allow a company to carry-forward or back any
excess of dividends paid over dividends received; the loss



1 carry-over provisions of Section 27(1)(e) might well
2 serve as a model for suitable legislation in this area.

3 Adoption of such a tax on intercorporate
4 dividends would also eliminate most of the need for the
5 present legislation affecting personal corporations. A
6 family holding company whose income consisted entirely of
7 dividends would be subject to this tax to the extent that
8 it did not declare dividends to its own shareholders at
9 least equal to those which it received. I believe that
10 very few family holding companies which are taxed as
11 personal corporations derive substantial incomes from
12 rents, since the ownership and management of large amounts
13 of real estate usually implies an active commercial
14 business, which eliminates personal corporation status.
15 This would, for all practical purposes, leave as an
16 unresolved problem only those family holding companies
17 whose incomes were derived largely from interest. It is
18 submitted that the whole of the personal corporation
19 legislation could safely be repealed if intercorporate
20 dividends were taxed in this manner. The loss to the
21 Revenue resulting from permitting companies which derive
22 the bulk of their incomes from interest to be treated as
23 ordinary taxable corporations is probably no greater than
24 that which results from the incorporation of family
25 businesses and the retention of their corporate earnings
26 to avoid personal taxation.

27 It must be emphasized that this suggestion
28 cannot resolve all the difficulties nor close all the
29 loopholes presently available, since there will always be
30 taxpayers whose personal rates of tax are such that a 25%



1 tax on intercorporate dividends may be more attractive
2 than payment of personal income tax on dividends. Never-
3 theless, the enactment of such tax would make it possible
4 to repeal Sections 28(2) to (9b), 67 and 68, 105B and 105C
5 and would permit greater simplicity in the Income Tax Act.

6 C. Capitalization of Undistributed Income

8 Enactment of Section 105(2) of the Income Tax
9 Act in 1950 marked a major departure from previous
10 legislative practice in relation to undistributed earnings
11 of companies. Part XVIII of the Income War Tax Act, which
12 was enacted following the report of the Ives Commission,
13 provided relief for taxpayers whose carelessness or
14 ignorance of tax law had allowed them to accumulate
15 surpluses in their companies without regard to the
16 possibility that their deaths would result in large
17 succession duties which could be paid only out of large
18 taxable dividends. If at the same time Part XVIII pro-
19 vided a windfall for other taxpayers who were perhaps
20 better advised by accountants and lawyers, but who did not
21 relish paying income tax at personal rates on dividends
22 which would have to be reinvested in their companies, this
23 was not too serious, for the legislative relief was of
24 a "once and for all" nature and served as a warning that
25 in future taxpayers would have to protect themselves
26 against the tax consequences of insufficient dividend
27 distribution.

28 The 1950 legislation went much further. Not
29 only did it enable surpluses accumulated prior to 1950 to
30 be withdrawn on payment of the tax at a flat rate of 15%,



1 but it also allowed additional amounts to be distributed
2 at the same rate, provided an equal amount had been
3 distributed previously by way of dividend since 1949.
4 This constitutes serious erosion of the principle of
5 progressive income taxation for the benefit of a relatively
6 small class of taxpayers. The advantage to a taxpayer
7 who is in a high tax bracket of arranging for his company
8 to make half of its distributions by way of dividend and
9 half under Section 105(2) is obvious. \$10,000 distributed
10 to a taxpayer in a 65% tax bracket as an ordinary dividend
11 bears tax of \$4,500 after deduction of the 20% dividend
12 tax credit under Section 38. However, if \$5,000 is
13 distributed by way of dividend and \$5,000 under Section
14 105(2), the total tax is only \$3,000, a saving of one-
15 third. Whatever the merits of the principle of the pro-
16 gressive income tax, it is intolerable that one class of
17 taxpayers should be entitled to substantial relief from
18 progressive rates while others with the same amount of
19 income from other sources pay taxes at steeply progressive
20 rates.

21 It should also be noted that if measures were
22 enacted to reduce the tax penalty on fluctuating incomes,
23 some of the pressures which require the enactment of
24 Section 105(2) would be alleviated, since a large dividend
25 declared in a single year for the purpose of paying estate
26 taxes and succession duties would not be subjected to
27 virtually confiscatory taxation. Alternatively, if
28 dividends declared by a private company in favour of the
29 estate of a deceased shareholder were subject to tax only
30 at a moderate flat rate, to the extent that they were used



1 to pay estate taxes and succession duties, the relief
2 could be confined to the class of taxpayers who are most
3 in need of it. A useful legislative analogy is found in
4 Section 303 of the United States Internal Revenue Code
5 which provides that redemption by a company of the shares
6 of a deceased shareholder will not be regarded as distri-
7 bution of a taxable dividend, to the extent that the
8 proceeds of redemption are used to pay the debts of the
9 estate. In these circumstances the United States Revenue
10 collects only capital gains tax.

11 D. Associated Corporations

12 Two years of experience with the 1960 amendments
13 to Section 39 of the Income Tax Act, dealing with associated
14 corporations, have, I believe, convinced most accountants
15 and lawyers that the legislation is entirely unworkable
16 and that it has produced at least as many loopholes as the
17 legislation which preceded it, as well as adding a measure
18 of uncertainty which was not previously present. Quite
19 simply, the legislation is now drawn in such a way that any
20 business presently operated as a private company can be
21 reorganized so as to produce a substantial number of
22 non-associated corporations if one is minded to do so.
23 The techniques by which this is possible vary considerably,
24 but in the main they make use of the following devices:

25 1. Where a businessman presently holds all the
26 shares of a company, he may arrange for his wife, his
27 adult children or trusts for his infant children to
28 incorporate other companies which will either operate
29 separate divisions of his business or will carry on in
30



1 partnership the business presently conducted by the
2 original company.

3 2. Where the shares of a private company are owned
4 by several individuals, the operations of the business
5 may be transferred to a partnership consisting of several
6 corporations, each wholly owned by one of these
7 individuals.

8 3. Combination of husbands and wives may be used
9 for the purpose of producing non-associated corporations.
10 If, for example, Smith, Jones and Brown each have a one-
11 third interest in four companies, the shareholdings may
12 be arranged in the following manner:

13 Company No. 1 Smith, Jones, Brown

14 Company No. 2 Smith, Mrs. Jones, Mrs. Brown

15 Company No. 3 Mrs. Smith, Jones, Mrs. Brown

16 Company No. 4 Mrs. Smith, Mrs. Jones and Brown

17 4. Making use of the decision in the English
18 case of Himley Estates Limited v. C.I.R., 17 T.C.367,
19 arrangements may be made for the issuance of non-
20 participating voting preference shares to outsiders in
21 order to divest the principals of the company of formal
22 legal control. For example:

23 Company No. 1, Jones, 100 common shares

24 Company No. 2, Jones, 100 common shares, Smith 50
voting preference shares, Brown 50
voting preference shares

26 Company No. 3, Jones, 100 common shares, Green 50
voting preference shares, Black 50
voting preference shares

28 5. In addition, by reason of the peculiarities of
29 Section 39(4) and particularly clauses (c), (d) and (e)
30 of the section, it is possible for additional non-associated



1 corporations to be created by having the shares held by
2 other companies. For example, if Jones holds all the
3 shares of A Limited and Mrs. Jones holds all the shares of
4 B Limited, not only are these companies non-associated
5 but another company, C Limited, whose shares are owned half
6 by A Limited and half by B Limited, can also be
7 incorporated which will not be associated with either of
8 them.

9 It is evident from the extensive use being made
10 of these devices that the present legislation is not
11 achieving its purpose. Before further attempts are made
12 to close its loopholes it might be well to reconsider
13 whether this type of legislation can ever serve any useful
14 purpose. The disparity between the rate of taxation on
15 the first \$35,000 of taxable income of a corporation and
16 that on the excess of \$35,000 is so great that it is easy
17 to understand why measures of tax avoidance have become
18 so common in this area. Perhaps no real progress can be
19 made in resolving this question until the difference in
20 rates becomes less marked. In the meantime, however, one
21 might ask whether the present loss to the Revenue from
22 use of multiple companies requires legislation of such a
23 far-reaching nature. There are cases where companies
24 which have no business at all with one another but which
25 are controlled by relatives have been treated as
26 associated corporations merely because a few shares of
27 stock in one company happened to be held by the persons
28 who controlled the other company. The present legislation
29 appears to work primarily as a trap for the unwary. Where
30 the creation of additional corporations merely involves



1 the legal separation of different branches of a business,
2 as for example, where separate companies are used to operate
3 individual stores in a retail chain, the advantages of
4 non-associated corporation status for each company must
5 always be compared by the businessman with the dis-
6 advantages resulting from the fact that our Income Tax
7 Act contains no provisions for the filing of consolidated
8 returns. As a result, a retail chain consisting of five
9 stores, each operated by a separate company, may find that
10 three of the stores make a taxable profit, while two
11 produce losses which cannot be offset against the profits
12 of the other three; this can sometimes be a very serious
13 disadvantage.

14 It is noteworthy that in the United States
15 (with one minor exception) no legislation has been con-
16 sidered necessary to deal with this problem, notwithstanding
17 a differential of 22% between the rate of tax on the first
18 \$25,000 of corporate income and the rate on the excess.
19 The only legislation which restricts in any way the
20 creation of additional companies for the purpose of
21 reducing tax is Section 1551, which reads:

22 "If any corporations transfers, on or after
23 January 1, 1951, all or part of its property
24 (other than money) to another corporation which
25 was created for the purpose of acquiring such
26 property or which was not actively engaged in
27 business at the time of such acquisition, and if
28 after such transfer the transferor corporation
29 or its stockholders, or both, are in control of
30 such transferee corporation during any part of



1 of the taxable year of such transferee corpora-
2 tion, then such transferee corporation shall not
3 for such taxable year (except as may be other-
4 wise determined under Section 269(b) be allowed
5 either the \$25,000 exemption for surtax pro-
6 vided in Section 11(c) or the \$100,000 accumulated
7 earnings credit provided in paragraph (2) or
8 (3) of Section 535(c), unless such transferee
9 corporation shall establish by the clear pre-
10 ponderance of the evidence that the securing
11 of such exemption or credit was not a major
12 purpose of such transfer. For purposes of this
13 section, control mean the ownership of stock
14 possessing at least 80 per cent of the total
15 combined voting power of all classes of stock
16 entitled to vote or at least 80 per cent of the
17 total value of shares of all classes of stock
18 of the corporation. In determining the ownership
19 of stock for the purpose of this section, the
20 ownership of stock shall be determined in
21 accordance with the provisions of Section 544,
22 except that constructive ownership under Section
23 544(a)(2) shall be determined only with respect
24 to the individual's spouse and minor children.
25 The provisions of section 269(b) and the authority
26 of the Secretary under such section, shall, to
27 the extent not inconsistent with the provisions
28 of this section, be applicable to this section.

29 In Rabkin and Johnson - "Federal Income
30 Gift and Estate Taxation" at pages 1145a to 1147a it is



1 pointed out that the statute does not treat money as
2 transferred property. In fact, Regulation 1.1551-1(d)
3 states, "For example, the transfer of cash for the purpose
4 of expanding the business of the transferor corporation
5 through the formation of a new corporation is not a
6 transfer within the scope" of the section, "irrespective
7 of whether the new corporation uses the cash to purchase
8 from the transferor corporation stock-in-trade or
9 similar property". It is not difficult to see that the
10 American legislation is of extremely limited scope and
11 that, generally speaking, no hindrance is placed on
12 multiple incorporations.

13 In my opinion, the only major loophole which
14 requires to be dealt with is that relating to partner-
15 ships of limited companies. In a partnership it would
16 hardly ever be possible for separate corporations to be
17 other than a tax advantage. If five companies are
18 incorporated, each for the purpose of operating one store,
19 since some of the stores may make a profit and others a
20 loss the fact that separate companies are used may turn
21 out to be a disadvantage. However, if a number of
22 companies operate these five stores in partnership, the
23 profits and losses from all the stores will be aggregated
24 in arriving at the partnership income which is to be
25 allocated among the partners and there can never be any
26 disadvantage in operating in this manner.

27 E. Court Costs and other Costs of Income Tax Appeals

28
29 1. A perennial source of complaint about our
30 present appeal procedures arises from the fact that a



1 decision favourable to the taxpayer is an appeal heard
2 by the Tax Appeal Board may have broad application to
3 many taxpayers and may involve large sums for the Revenues,
4 although only a small sum is involved for the individual
5 taxpayer concerned. The Taxation Division is clearly
6 entitled to appeal to the Exchequer Court any decision
7 of the Tax Appeal Board with which it disagrees. However,
8 this can work unfairly on the small taxpayer who has
9 appealed through the relatively inexpensive procedures
10 of the Tax Appeal Board. In the United Kingdom, appeals
11 in income tax matters to the House of Lords are quite
12 frequently taken by the Revenue in cases which involve
13 only small sums for the taxpayer concerned. In such
14 cases leave to appeal is sometimes given only after the
15 Revenue has undertaken to pay the taxpayer's legal costs,
16 no matter which way the decision goes. It is suggested
17 that quite similar arrangements might be instituted in
18 the Exchequer Court of Canada, which might be permitted
19 to hear appeals by the Taxation Division from decisions
20 of the Tax Appeal Board involving less than, say, \$5,000,
21 only upon their undertaking to pay the taxpayer's cost
22 in any event of the cause.

23 2. Another irritant arises from application of the
24 legal principle that expenses of income tax litigation
25 and even of advice in income tax matters are not expenses
26 incurred for the purpose of gaining or producing income
27 and are therefore not deductible for income tax purposes.
28 The basis of this principle is that such expenses are not
29 incurred to earn income, but rather to determine the
30 allocation of the income as between the Crown and the



1 taxpayer after it has been earned. Such a principle is,
2 no doubt, properly applicable when partners dispute
3 about the distribution of partnership profits, since the
4 expenses of litigating their dispute having nothing to
5 do with the earning of the partnership income. However,
6 litigation between partners is quite exceptional and
7 legal rules developed to deal with such cases have, in
8 my submission, no proper application to income tax cases.
9 Income tax laws are today of such complexity and ambiguity
10 that business people must frequently consult tax advisers
11 and may occasionally become involved in proceedings before
12 the Appeal Section or even in appeals to the Tax Appeal
13 Board or to the Exchequer Court. Business men properly
14 regard income tax as a cost of doing business, not
15 essentially different from the ordinary expenses of their
16 business. In my experience, businessmen find it almost
17 inconceivable that the sums which they pay to accountants
18 and lawyers in connection with contested income tax matters
19 are not permitted as deductions under the Income Tax Act.

20 3. A further source of unnecessary hardship arises
21 from the fact that under Section 51(1) of the Income Tax
22 Act the tax imposed by an assessment must be paid within
23 thirty days, whether or not an objection to or an appeal
24 from the assessment is outstanding. It is true, of course,
25 that if the taxpayer is successful in his objection or in
26 his appeal the tax which he has overpaid will be refunded
27 with 6% interest but this is far from satisfactory. At
28 the present time, some District Taxation Offices appear
29 to ignore the provisions of Section 51(1) and to allow
30 taxpayers who file notices of objection merely to give



1 security for payment of the taxes in dispute, while the
2 matter is litigated. This arrangement should be put on
3 a statutory basis, by giving every taxpayer the same right,
4 perhaps subject to his obtaining approval of the security
5 from a judge of a county or district court.

6 The Excise Tax Act

7
8 Notwithstanding years of agitation for reform
9 of the Excise Tax Act the main problems remain completely
10 unresolved. These problems are still the following:

11 (1) The lack of any clear statutory basis
12 for the "wholesale discount" procedure,

13 (2) The arbitrary powers conferred on the
14 Minister under Section 37 (and to some extent also under
15 Section 31) to determine value for tax purposes,

16 (3) The lack of an adequate appeal procedure,
17 and

18 (4) The harsh criminal penalties for non-
19 payment of sales and excise taxes.

20 (1) The "wholesale discount" procedure

21 Although Section 30 of the Excise Tax Act
22 imposes a consumption or sales tax on the sale price of
23 all goods and although Section 29(1)(f) makes it clear
24 that this tax is to be levied on the actual price charged
25 by a manufacturer, whether the sale be made to a whole-
26 saler, a retailer or a consumer, the practice of the
27 Department of National Revenue for many years has been
28 to allow a "wholesale discount" on all sales made by
29 manufacturers directly to retailers or consumers wherever
30 this is necessary in order to ensure relative equality of



1 tax treatment. If, for example, a manufacturer sells a
2 particular item to retailers at \$1.00 and to wholesalers
3 at 80¢, notwithstanding Section 29(1)(f) he usually
4 accounts for tax on sales to retailers, not on his actual
5 selling price of \$1.00, but on his established wholesale
6 price of 80¢. (See Regulation 21(2)(g) of Circular
7 ET-1). If such an allowance were not made, the manu-
8 facturer would be at a disadvantage in making sales
9 directly to retailers, compared to the wholesaler who
10 also sells to retailers. In the case of certain specific
11 classes of goods, a somewhat different procedure is
12 followed, whereby manufacturers selling directly to
13 retailers or consumers are permitted a wholesale discount
14 of a specified percentage from their selling prices,
15 irrespective of the price charged by them to wholesalers.

16 The legal validity of the Circulars issued
17 by the Minister of National Revenue dealing with whole-
18 sale discounts must, of course be based upon the provision
19 of the Excise Tax Act. However, Section 38(1) merely
20 provides, "The Minister of Finance or the Minister of
21 National Revenue, as the case may be, make such regulation
22 as he deems necessary or advisable for carrying out the
23 provisions of this Act." As a result, the courts have
24 not been clear as to the legal validity of the whole
25 discount procedure. In Attorney General of Canada v.
26 Coleman Products Limited, (1929) 1 D.L.R.658, it was held
27 that the wholesale discount procedure was ultra vires
28 the Minister and that the statute required him to collect
29 tax upon the actual selling price. However, in
30 Laboratoires Marois Limitee v. The Queen (1955) 55



1 D.T.C.1115, the contrary conclusion was reached by the
2 Exchequer Court of Canada. On appeal by the Minister
3 to the Supreme Court of Canada in 1958 (58 D.T.C.1116)
4 two judges upheld the validity of the wholesale discount
5 procedure, two declared it ultra vires and the fifth
6 judge decided the case on other grounds.

7 Quite simply, this situation is intolerable.
8 If the Coleman case was correctly decided, the Minister
9 is acting illegally. On the other hand, if the Exchequer
10 Court decision in the Marois case is correct, we have a
11 situation in which, entirely contrary to our parliamentary
12 traditions, the rate of sales tax to be imposed on a
13 particular transaction is in effect established by
14 ministerial fiat rather than by Parliament. If the
15 wholesale discount procedure is necessary for the proper
16 administration of the Excise Tax Act, provisions similar
17 to those contained in Regulation 21 should be enacted
18 as a part of the Excise Tax Act, modifying the definition
19 of "sale price" in Section 29(1)(f).

20 The absence of a clear statutory basis for the
21 wholesale discount procedure at the present time could
22 place the manufacturer in an unavoidable position where,
23 in the event of a serious dispute with the Excise Branch
24 over wholesale discounts, such as that which arose in
25 the Marois case, if he does not accept the Departmental
26 ruling in his case, he could be deprived of an effective
27 right of appeal to the courts; a court which followed
28 the Coleman decision could only determine that tax must
29 be accounted for on the basis of the actual selling price
30 without deduction of any wholesale discount whatever.



1 On the other hand, the time is now ripe to
2 consider whether the imposition of sales tax at some
3 other level might be more appropriate than the present
4 system. Ideally, a neutral tax structure which imposes
5 consumption or sales taxes should impose them as close as
6 possible to the consumer level, in order that each dollar
7 spent by the consumer should bear the same proportion of
8 taxes. In view of the fact that the most of the provinces
9 now impose retail sales taxes, perhaps it would now be
10 in order to consider the suggestion made by the Director of the
11 Canadian Tax Foundation in a recent issue of the Canadian Tax
12 Journal that the federal government and the provinces
13 co-operate in the imposition of a retail sales tax, to be
14 collected by the provinces on behalf of themselves and
15 the federal government. Such a tax could replace the
16 present federal sales tax by transferring the tax (at a
17 lower rate) to the consumer level. This would eliminate
18 many of the very serious problems of tax equity and
19 administration which presently results from the imposition
20 of tax at the manufacturers' level. For example, it
21 would no longer be of any fiscal importance whether a
22 person was classed as a manufacturer and many of the
23 artificial arrangements presently existing in various
24 industries for avoiding the status of manufacturer for
25 sales tax purposes, as well as the equally artificial
26 statutory rules deeming certain persons to be manufacturers,
27 would be eliminated. By abolishing the arbitrary adjust-
28 ments of tax bases which are presently required by the
29 wholesale discount procedure, greater certainty and
30 fairness could be achieved.



1 Alternatively, the proposal made by the majority
2 of the Carter Committee in 1956, to convert the present
3 tax into one based on the price paid by the retailer to his
4 supplier (whether that supplier be the manufacturer or
5 the wholesaler) has greater merit. Most of the artifi-
6 ciality of the present method of fixing the tax base
7 through the wholesale discount procedure would be
8 eliminated if sales tax were levied in every case on the
9 price actually charged to the retailer. The fact that
10 this would involve licensing all wholesalers does not
11 appear to present an insurmountable obstacle. A national
12 price would still have to be established for tax purposes
13 in all cases where sales are made directly by manufacturers
14 or wholesalers to consumers, but such sales represent
15 a much smaller percentage of all transactions in Canada
16 than do sales to retailers.

17 2. Arbitrary powers conferred on the Minister
18

19 Section 37 of the Excise Tax Act provides:
20 "Where goods subject to tax under this Part or
21 under Part IV are sold at a price that in the
22 judgment of the Minister is less than the fair
23 price on which the tax should be imposed, the
24 Minister has the power to determine the fair
25 price and the taxpayer shall pay the tax on the
26 price so determined".

27 Presumably this section was enacted for the purpose of
28 protecting the Revenue in cases where the manufacturer
29 and his customer are inter-related, associated or
30 affiliated concerns or where one is subsidiary to the



1 other and, as a result, the price charged is less than
2 that which might be charged in an arm's length transaction.
3 However, in The King v. Noxzema Chemical Company, the
4 Supreme Court of Canada held that the power conferred
5 upon the Minister under this section is administrative,
6 rather than judicial, and that no appeal lies from the
7 Minister's determination of the "fair price" for sales
8 tax purposes. Similarly, Section 31(1) provides:

9 "Whenever goods are manufactured or produced in
10 Canada under such circumstances or conditions
11 as render it difficult to determine the value
12 thereof for the consumption or sales tax
13 because

- 14 (a) a lease of such goods or the right of
15 using the same but not the right of property
16 therein is sold or given;
- 17 (b) such goods having a royalty imposed thereon
18 the royalty is uncertain, or is not from other
19 causes a reliable means of estimating the value
20 of the goods.
- 21 (c) such goods are manufactured by contract
22 for labour only and not including the value of
23 the goods that enter into the same, or under
24 any other unusual or peculiar manner of
25 condition, or
- 26 (d) such goods are for use by the manufacturer
27 or producer and not for sale;
28 the Minister may determine the value for the
29 tax under this Act and all such transactions
30 shall for the purposes of this Act be regarded



1 as sales."

2 It appears to be quite unreasonable to permit
3 tax to be imposed in this manner. Section 17(2) of the
4 Income Tax Act, which deals with the same problem,
5 simply states:

6 "Where a taxpayer carrying on business in
7 Canada has sold anything to a person with whom
8 he was not dealing at arm's length at a price
9 less than the fair market value, the fair
10 market value thereof shall, for the purposes
11 of computing the taxpayer's income from the
12 business be deemed to have been received or to
13 be receivable therefor."

14 Section 17(2) therefore leaves the determination of fair
15 market value to the courts, in the event of a difference
16 of opinion between the Minister and the taxpayer. Enact-
17 ment of a similar provision in the Excise Tax Act, in
18 place of the present sections 31 and 37, would remove an
19 unnecessary and arbitrary power presently conferred upon
20 the Minister.

21 3. Appeal procedure

22 It is an astonishing thing that a statute
23 under which hundreds of millions of dollars are collected
24 each year in taxes should be so lacking in normal appeal
25 procedures. The only provisions dealing with appeals
26 are those contained in Sections 57 and 58, dealing with
27 the jurisdiction of the Tariff Board, which is empowered
28 to declare what amount of tax is payable on any article
29 or that the article is exempt from tax, subject to an



1 appeal to the Exchequer Court on the questions of law.
2 The extraordinary limited nature of this appeal procedure
3 was the subject of comment by the Supreme Court of Canada
4 in Goodyear Tire & Rubber Company v. T. Eaton Company,
5 (1956), 56 D.T.C. 1060. In that case the court held that
6 the Tariff Board was entirely without jurisdiction to
7 decide whether a person was a manufacturer for sales tax
8 purposes. The Tariff Board is also without jurisdiction
9 to hear a suit by the Crown for the recovery of taxes
10 sought to be evaded where the defence is that all taxable
11 sales have been fully reported. Even its ability to
12 decide "what rate of tax is payable on any article"
13 probably does not extend to the determination of questions
14 involving wholesale discounts. It is suggested that the
15 limited jurisdiction conferred on the Tariff Board is of
16 little practical value, except for the relatively
17 unimportant class of matters requiring a determination
18 whether a particular class of articles falls under one
19 of the items in Schedule I of the Act (which lists
20 articles subject to excise tax) or Schedule III (which
21 lists items exempt from sales tax). The need still exists
22 for a simple procedure for appealing assessments to the
23 courts, similar to that provided in Section 58 to 60 of
24 the Income Tax Act.

25 A further discussion of this matter is con-
26 tained in an article in Volume XXXII of the Canadian
27 Bar Review at pages 79 and following.

28 4. Criminal penalties for non-payment of sales and
29 excise taxes

30 Although sales taxes are, by Section 30(1) of



1 the Excise Tax Act, treated merely as civil debts imposed
2 upon the manufacturer, and although payment of this debt
3 is demanded from the manufacturer whether or not he is
4 able to collect the purchase price or even the amount
5 of the tax from his customer, the penalties imposed under
6 Section 53 upon a manufacturer who fails to pay his sales
7 or excise tax appeal to be based upon the entirely
8 contrary view, that sales and excise taxes are trust
9 funds collected from customers, which must be remitted
10 to the Crown on pain of criminal sanctions. It is not
11 unreasonable to take the position that any monies
12 actually collected by a manufacturer from his customers
13 on account of sales or excise taxes should be treated
14 as trust funds and that failure to remit these monies
15 should subject a manufacturer to criminal penalties.
16 Similar provisions are contained in Section 131(2) of
17 the Income Tax Act, relating to nonpayment of employees'
18 withholding taxes. However, it is quite unfair to impose
19 such penalties except where monies have actually been
20 received by the manufacturer from his customer. Never-
21 theless, Section 53 of the Excise Tax Act imposes a
22 severe criminal penalty for nonpayment of sales tax,
23 whether or not the manufacturer has collected the tax from
24 his customers. The section actually imposes a criminal
25 penalty for nonpayment of a civil debt.

26 Moreover, although the penalty imposed by
27 Section 53 is calculated in part by reference to the amount
28 of tax that should have been paid and although Section
29 51(2) permits the Minister to apply this portion of the
30 penalty on account of the tax that should have been paid,



1 no obligation is imposed upon the Minister actually to
2 apply the penalty in this manner. There is nothing in the
3 Excise Tax Act, as it now stands, to prevent the Minister
4 from prosecuting and collecting from each partner of
5 a firm which carries on a manufacturing business an
6 amount equal to the sales tax that the firm should have
7 been paid and then suing the firm under Section 50 for
8 the same amount as an ordinary civil debt. In the case
9 of an incorporated company, the statute actually permits
10 the Minister to prosecute and collect the amount of the
11 tax from every officer, director or agent of the company
12 who has directed, authorized and condoned or participated
13 in the commission of the offence of nonpayment of tax
14 and, in addition, to sue the company for the amount of
15 the tax. It is submitted that such provisions are wholly
16 unnecessary. It is no answer to this criticism to say
17 that in practice the Excise Branch does not exercise these
18 powers; their presence in the statute is undesirable and
19 their elimination is required.

20

21

22

23

24

25

26

27

28

29

30

